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Financial statements and independent auditor's report

Cooperative and Agricultural Credit Bank

(Yemeni Joint Stock Company)

December 31, 2015

CAC BANK
بنك التسليف التعاوني والزراعي
Cooperative & Agricultural Credit Bank

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Independent Auditor's Report

To: The Shareholders' of
Cooperative and Agricultural Credit Bank
(Yemeni Joint Stock Company)
Sana'a - Republic of Yemen

Audit .Tax . Advisory
Grant Thornton Yemen
Algeria St.
Sana'a - Republic of Yemen
P.O. Box: 18045
Tel. + 967 1 465 024 / 5
Fax. + 967 1 465 026
www.gtyemen.com

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Cooperative and Agricultural Credit Bank** (Yemeni Joint Stock Company) and its subsidiary unit (together referred to as the "Group") which comprise the consolidated statement of financial position as at December 31, 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (1-52).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, the instructions issued by Central Bank of Yemen, compliance with Yemeni laws and regulations, and for such internal control as management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidences we have obtained are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, instructions issued by Central Bank of Yemen and Yemeni laws and regulations.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note (51) in the consolidated financial statements related to the political crisis, economic situation and security events in the Republic of Yemen during the year 2015 and its continuation in the year 2016.

Other Matters

The consolidated financial statements of **Cooperative and Agricultural Credit Bank** for the year ended December 31, 2014, were audited by another auditor who expressed an unqualified opinion on those statements on April 30, 2015.

Report on Other Legal and Regulatory Requirements

We have obtained from management the information and clarifications that we deemed necessary for our audit. The Group keeps proper books of account, and the accompanying consolidated financial statements are in agreement with these books. We are not aware of any violations of Yemen Commercial Companies Law No. (22) of 1997 and its amendments, Banking Law No. 38 of 1998 and Law No. (39) of 1982 concerning the establishment of Cooperative and Agricultural Credit Bank having occurred during the year which might have had a material effect on the business of the Group or its consolidated financial position, except for the violation of CBY circular No. (6) of 1998 related to the major foreign currencies position which described in Note No. (44) of the accompanying notes to the consolidated financial statements.

Grant Thornton Yemen

Talal Thabet

Sana'a - Republic of Yemen
June 5, 2016

Consolidated Statement of Financial Position

	Notes	Dec. 31, 2015 YR 000s	Dec. 31, 2014 YR 000s
Assets			
Cash on hand and reserve balances with Central Bank of Yemen	7	**29,999,735**	43,334,926
Due from banks	8	**17,945,773**	28,556,334
Loans, advances and financing activities, net	9	**38,138,851**	63,109,804
Investments securities	12	**250,224,334**	325,205,107
Investments in Islamic Sukuk	16	**14,667,000**	12,000,000
Investments in associates	17	**632,988**	618,949
Debit balances and other assets, net	18	**4,353,952**	5,763,591
Property and equipment, net	20	**3,200,865**	3,070,301
Total assets		**359,163,498**	**481,659,012**
Liabilities and equity			
Liabilities			
Due to banks and financial institutions	21	**14,081,808**	21,374,311
Customers' deposits	22	**309,577,769**	424,409,039
Long-term loans	23	**2,756,188**	2,789,782
Credit balances and other liabilities	24	**8,844,736**	9,303,047
Other provisions	25	**1,968,168**	4,199,423
Total liabilities		**337,228,669**	**462,075,602**
Equity	26		
Share capital	26.1	**17,000,000**	14,900,000
Statutory reserve	26.2	**2,887,060**	2,534,347
General reserve		**47,151**	82,823
Retained earnings		**2,000,618**	2,066,240
Total equity attributable to equity holders of the bank		**21,934,829**	**19,583,410**
Non-controlling interests		**-**	**-**
Total equity		**21,934,829**	**19,583,410**
Total liabilities and equity		**359,163,498**	**481,659,012**
Contingent liabilities and commitments, net	27	**36,061,444**	**63,540,236**

Finance Manager	Deputy of Chief Executive Officer	Chief Executive Officer	Chairman
Mr. Mohammed Kassem Al-Maqtari	Mr. Abdullah Ali Al-Daylami	Mr. Salah Sadek Basha	Mr. Mohammed Saleh Allai

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the years ended December 31,

	Notes	2015 YR 000s	2014 YR 000s
Interests income	28	48,554,863	53,753,448
Less: interests expense	29	(25,994,837)	(33,419,964)
Net interests income		22,560,026	20,333,484
Islamic financing and investments activities income	30	1,301,152	1,425,684
Less: Return of unrestricted investment and saving accounts holders	31	(317,125)	(555,026)
Net income from Islamic financing and investment activities		984,027	870,658
Net income from interests and Islamic financing and investment activities		23,544,053	21,204,142
Fee and commissions income	32	1,872,153	2,260,794
Loss from foreign currency transactions	33	(102,921)	(28,360)
Income from investments securities	34	17,094	158,228
Other operating income	35	384,002	9,471
Net operating income		25,714,381	23,604,275
Less: Impairment loss on investments securities	1.15	(1,177,802)	-
Less: Provisions	36	(6,170,978)	(4,634,229)
Less: Staff cost	37	(9,348,388)	(8,581,034)
Less: Depreciation of property and equipment	20	(724,972)	(739,930)
Less: Other expenses	38	(4,768,705)	(5,906,787)
Net profit for the year before taxes		3,523,536	3,742,295
Less: Income tax for the year	1.24	(1,172,117)	(1,311,893)
Net profit for the year after taxes		2,351,419	2,430,402
Other comprehensive income		-	-
Total comprehensive income for the year		2,351,419	2,430,402
Attributable to:			
Equity holders of the bank		2,351,419	2,430,402
Non-controlling interest		-	-
		2,351,419	2,430,402
Earnings per share	39	138 YR	163 YR

Finance Manager	Deputy of Chief Executive Officer	Chief Executive Officer	Chairman
Mr. Mohammed Kassem Al-Maqtari	Mr. Abdullah Ali Al-Daylami	Mr. Salah Sadek Basha	Mr. Mohammed Saleh Allai

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Consolidated Statement of Changes in Equity

For the years ended December 31,

2015	Share Capital YR 000s	Statutory reserve YR 000s	General reserve YR 000s	Retained earning YR 000s	Total Equity Attributable to equity holders of the Bank YR 000s	Non-controlling Interests YR 000s	Total YR 000s
Balance at January 1, 2015	**14,900,000**	**2,534,347**	**82,823**	**2,066,240**	**19,583,410**	-	**19,583,410**
Net profit for the year	-	-	-	2,351,419	2,351,419	-	2,351,419
Other comprehensive income	-	-	-	-	-	-	-
	14,900,000	**2,534,347**	**82,823**	**4,417,659**	**21,934,829**	-	**21,934,829**
Changes in equity holders, recorded directly in equity							
Transfer to capital	2,100,000	-	(35,672)	(2,064,328)	-	-	-
Dividends paid	-	-	-	-	-	-	-
Transfer to general reserve	-	-	-	-	-	-	-
Transfer to statutory reserve	-	352,713	-	(352,713)	-	-	-
	2,100,000	**352,713**	**(35,672)**	**(2,417,041)**	-	-	-
Balance at December 31, 2015	**17,000,000**	**2,887,060**	**47,151**	**2,000,618**	**21,934,829**	-	**21,934,829**

See accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Equity (Continued)

For the years ended December 31,

2014	Share Capital YR 000s	Statutory reserve YR 000s	General reserve YR 000s	Retained earing YR 000s	Total Equity Attributable to equity holder of the Bank YR 000s	Non-controlling Interests YR 000s	Total YR 000s
Balance at January 1, 2014	**11,900,000**	**2,169,787**	**3,823**	**3,079,398**	**17,153,008**	-	**17,153,008**
Net profit for the year	-	-	-	2,430,402	2,430,402	-	2,430,402
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the year	**11,900,000**	**2,169,787**	**3,823**	**5,509,800**	**19,583,410**	-	**19,583,410**
Changes in equity holders, recorded directly in equity							
Transfer to capital increase	3,000,000	-	-	(3,000,000)	-	-	-
Dividends paid	-	-	-	-	-	-	-
Transfer to general reserve	-	-	79,000	(79,000)	-	-	-
Transfer to statutory reserve	-	364,560	-	(364,560)	-	-	-
	3,000,000	**364,560**	**79,000**	**(3,443,560)**	-	-	-
Balance at December 31, 2014	**14,900,000**	**2,534,347**	**82,823**	**2,066,240**	**19,583,410**	-	**19,583,410**

Finance Manager	Deputy of Chief Executive Officer	Chief Executive Officer	Chairman
Mr. Mohammed Kassem Al-Maqtari	Mr. Abdullah Ali Al-Daylami	Mr. Salah Sadek Basha	Mr. Mohammed Saleh Allai

Consolidated Statement of Cash Flows

For the years ended December 31,

	Notes	2015 YR 000s	2014 YR 000s
Cash flows from operating activities			
Net profit for the year before taxes		**3,523,536**	3,742,295
Adjustments for:			
Depreciation of property and equipment	**20**	**724,972**	739,930
Provisions provided during the year	**36**	**6,170,978**	4,634,229
Provisions used during the year		**(2,317,816)**	(507,762)
Retranslation differences of provisions in foreign currencies		**(3,222)**	(3,409)
Gain on foreign currency translation (unrealized)		**-**	(2,982)
Decrease in available for sale investment		**1,177,802**	-
Provisions reversed	**35**	**(354,512)**	-
Net share in profit of investments in associates		**(14,039)**	(146,662)
Loss on sale of property and equipment		**8,299**	7,837
Operating profit before changes in assets and liabilities used in operating activities		**8,915,998**	**8,463,476**
Changes in:			
Reserve balances with Central Bank of Yemen		**7,292,743**	450,091
Treasury bills due after 3 months		**61,599,834**	34,316,024
Decrease (increase) in loans, advances and financing activities		**21,472,913**	(25,578,206)
Increase in debit balances and other assets		**(819,004)**	(1,511,349)
(Decrease) increase in due to banks and financial institutions		**(7,292,503)**	6,509,513
(Decrease) increase in customers' deposits		**(114,831,270)**	11,175,559
(Decrease) increase in credit balances and other liabilities		**(319,484)**	1,647,245
Income tax paid		**(1,310,944)**	(1,604,852)
Net cash (used in) from operating activities		**(25,291,717)**	**33,867,501**
Cash flows from investing activities			
Acquisition of property and equipment		**(876,893)**	(985,894)
Proceeds from sale of property and equipment		**13,058**	-
Increase in investments securities		**-**	(48,552)
Increase in investments in Islamic Sukuk		**(2,667,000)**	(4,000,000)
Cash dividends received from associates		**-**	760
Proceeds from sale of investments in associates		**-**	1,500
Net cash used in investing activities		**(3,530,835)**	**(5,032,186)**
Cash flows from financing activities			
(Decrease) increase in long term loans		**(33,594)**	2,652,531
Net cash (used in) from financing activities		**(33,594)**	**2,652,531**
Net change in cash and cash equivalents during the year		**(28,856,146)**	31,487,846
Cash and cash equivalents at the beginning of the year		**226,436,931**	195,557,280
Effect on exchange rate fluctuations on cash held		**-**	(608,195)
Cash and cash equivalents at the end of the year		**197,580,785**	**226,436,931**

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows (Continued)

For the years ended December 31,

	Notes	2015 YR 000s	2014 YR 000s
Cash and cash equivalents at the end of the year consist of:			
Cash on hand and reserve balances with Central Bank of Yemen	7	**29,999,735**	43,334,926
Due from banks	8	**17,945,773**	28,556,334
Treasury bills, net	13	**245,019,097**	318,822,068
		292,964,605	**390,713,328**
Less: Reserve balances with Central Bank of Yemen		**(23,188,908)**	(30,481,651)
Less: Treasury bills due after 3 months, net		**(72,194,912)**	(133,794,746)
		197,580,785	**226,436,931**

Finance Manager	**Deputy of Chief Executive Officer**	**Chief Executive Officer**	**Chairman**
Mr. Mohammed Kassem Al-Maqtari	**Mr. Abdullah Ali Al-Daylami**	**Mr. Salah Sadek Basha**	**Mr. Mohammed Saleh Allai**

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بنك التسليف التعاوني والزراعي

Notes to the Consolidated Financial Statements

For the years ended December 31, 2015 and 2014

1. Background Information

The Cooperative and Agricultural Credit Bank (the Bank) was established in Sana'a in accordance with law no. 39 of 1982, as a result of merging the Agricultural Credit Bank (ACB) (which was established in 1975) and the National Co-operation Development Bank (NCDB), (which was established in 1979). The Bank is registered with the Ministry of Industry and Trade under commercial registration no. 5391.

The Bank provides Islamic banking services through its Islamic branch in conformity with the Islamic Sharia' and under the supervision of Sharia' Board. On March 29, 2010, the Bank obtained the initial approval from Central Bank of Yemen (CBY) and obtained the final approval on April 16, 2011.

The Bank operates through its head office in Sana'a and 49 branches (53 branches in 2014) spread all over the governorates of the Republic of Yemen, in addition to its subsidiary unit in the Republic of Yemen (together referred as the "Group") as follows:

Subsidiary Unit Name	Main Operating Activity	Share Capital YR 000's	Year of Incorporation	Ownership % 2015	Ownership % 2014
CAC Services for Security and Maintenance (Sana'a, Republic of Yemen)	Security and cleaning	10,000	2011	100%	100%

2. Preparation Basis of the Consolidated Financial Statements

2. 1 Statement of compliance

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and instructions issued by the Central Bank of Yemen (CBY).

In deviation from International Financial Reporting Standards, and to apply the provisions of local laws and regulations, the followings are treated as follows:

a. The adoption of minimum fixed percentages for loan provisions in accordance with Central Bank of Yemen circular No. 6 of 1996, No. 5 of 1998 and No. 8 of 2015.

b. The recording of provision for general risks calculated on performing loans under "loans provision" and not under equity,

c. The recording of provision for contingent liabilities under "other provisions" and not under equity.

The effect of these deviations is immaterial on the consolidated financial statements of the Group as at December 31, 2015.

- The subsidiary financial statements are prepared and presented in accordance with International Financial Reporting Standards (IFRS).
- The consolidated financial statements were approved by the Board of Directors on June 1, 2016.

2. 2 Basis of measurements

The consolidated financial statements have been prepared on the historical cost basis except for non-trading investments classified as available - for - sale investments are measured at fair value.

2. 3 Functional and presentation currency

The consolidated financial statements are presented in Yemeni Rials, which is the functional currency of the Group, and all values are rounded to the nearest one thousand Yemeni Rial except when otherwise indicated.

2. 4 Significant accounting judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual result may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in notes 3.5, 3.9, 3.10, 3.11, 5, 10, 12, 19, 20, 24 and 25.

The judgments, estimates and assumptions applied by the Group presented in these consolidated financial statements as follows:

a. Critical accounting judgments in applying the Group's accounting policies include:

- **Financial asset and liability classification**

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets, "held-to-maturity" or "available-for-sale", the Group has determined it meets the description as set out in accounting policy No (3.3).

- **Determination of fair value hierarchy of financial instruments**

The Group's determination of fair value hierarchy of financial instruments is discussed in note 5.

b. Key sources of estimation uncertainty

- **Provision for impairment of assets**

The Group exercises judgment in the estimation of provision for impairment of assets. The methodology for the estimation of the provision is provided in the impairment of financial assets and non-financial assets which is shown in the significant accounting policies below.

- **Provision for impairment of investments available-for-sale**

The Group exercises judgment to consider impairment on the investments available-for-sale. This includes determination of significant or prolonged decline in the fair value below its cost. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, the Group considers the impairment were appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operating and financing cash flows.

- **Useful lives of property and equipment**

The Group uses estimates of useful lives of property and equipment for depreciating these assets.

- **Contingent liability arising from litigations**

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

3. 1 Basis of consolidation

3. 1. 1 IFRS 10 establishes a single control of model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- The investor has power over an investee.
- the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
- the investor has the ability to use its power over the investee to affect the amount of the investor’s returns.

3. 1. 2 The consolidated financial statements include both the separate financial statements of Cooperative and Agricultural Bank comprising all balances of assets, liabilities and results of operations of Cooperative and Agricultural Credit Bank – Islamic Branch and its subsidiary unit after eliminating all balances and transactions and the statement of profit or loss and other comprehensive income items resulting from intra - transactions.

a. Subsidiary Company

Subsidiary company is investee that controlled by the Group. The Group control the investee if it meet the control criteria discussed in note (3.1). The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

b. Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in the statement of profit or loss and other comprehensive income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

c. Non-controlling interest and transactions therewith

Non-controlling interests represent the portion of profit and loss and net assets not owned, directly or indirectly, by the Group and are presented separately in the consolidated statement of profit or loss and other comprehensive income and under equity in the consolidated statement of financial position, separately from the Bank shareholders' equity.

d. Transactions eliminated on consolidated financial statements

The carrying amounts of the Bank's investment in subsidiary and the equity of subsidiary is eliminated an consolidation. The intra-group balances, also income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

3. 2 Foreign currency transactions

The Group (the Bank and its subsidiary unit) maintains its book of account in Yemeni Rial, which the Group's functional currency. Transactions in other currencies are translated to the respective functional currency during the financial year at the prevailing exchange rates at the date of transaction. Balances of monetary assets and liabilities in other currencies at the end of the financial year are translated at the prevailing exchange rates on that date. Gains or losses resulting from translation are taken to the statement of profit or loss and other comprehensive income.

The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in the foreign currency translated at the exchange rate at the end of the year. Foreign currency differences arising on retranslation are recognized in the statement of profit or loss and other comprehensive income.

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

The Group does not deal in forward or options contracts, except to the extent to cover the Group needs or the customers' transactions with the Group in foreign currencies, which are settled in short term periods.

3. 3 Financial assets and financial liabilities

a. <u>Recognition and Initial Measurement</u>

The Group initially recognizes loan and advances to customers, due from or to banks, customers' deposits and other borrowings on the date at which they are originated. Also other financial assets and liabilities are recognized in the statement of financial position when the Group becomes a party to the contractual provisions of the instrument with other party.

b. **Classification**

- **Financial assets**

At inception financial assets are classified in one of the following categories:

1. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell it immediately or in the near future. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

2. Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Treasury bills held to maturity are considered part of these investments and are recorded at face value and the balance of unearned discount is recorded under credit balances and other liabilities. Treasury bills are presented in the statement of financial position net of the balance of unearned discount outstanding at the consolidated financial statements date according to the instructions of the Central Bank of Yemen.

   Held-to-maturity investments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

3. Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities are carried at cost less impairment, and all other available-for-sale investments are carried at fair value.

   Interest income is recognized in statement of profit or loss and other comprehensive income using the effective interest method. Dividend income is recognized in profit or loss and other comprehensive income statement when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in the statement of profit or loss and other comprehensive income.

   Other fair value changes are recognized in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income are reclassified to the statement of profit or loss and other comprehensive income as a reclassification adjustment.

   A non-derivative financial asset is reclassified from the available-for sale category to the loans and receivables category if it otherwise would have met the definition of loan and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

- **Financial liabilities**

The Group has classified and measured its financial liabilities at amortized cost.

c. **Derecognition**

- Financial assets are derecognized when the contractual rights related to the financial instruments have expired which ordinarily coincide with the sale or transfer of the contractual right to receive cash flows related to the asset to an independent party.
- Financial liabilities are derecognized when they extinguished, that is when the contractual obligation is discharged, canceled or expired.

d. Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expense is not offset in the profit or loss and other comprehensive income statement unless required or permitted by any accounting standard or interpretation.

e. Measurement principles

Financial assets are measured by amortized cost or fair value.

- **Amortized cost measurement:** the amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment loss. The calculation of effective interest rate includes all fees paid or received that are an integral part of the effective interest rate.
- **Fair value measurement:** fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk.

  The Group measures the fair value of listed investments at the market closing price for the investment. For unlisted investments, the Group recognizes any increase in the fair value, when they have reliable indicators to support such an increase. These reliable indicators are limited to the most recent transactions for the specific investment or similar investments made in the market on a commercial basis between desirous and informed parties who do not have any reactions which might affect the price. In the absence of a reliable measure of fair value, the investment is carried at cost.

f. Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

The Group consider evidence of impairment loss for loans and advances to customers and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances to customers and held-to- maturity investment securities are assessed for specific impairment. All individually significant loans and advances to customers and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances to customers and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances to customers and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets carried at amortized costs are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and other comprehensive income statement and reflected in an allowance account against loans and advances to customers.

For listed investments, a decline in the market value by 20% from cost or more, or for a continuous period of 9 months or more, are considered to be indicators of impairment.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income as a reclassification adjustment in the statement of profit or loss and other comprehensive income. The cumulative loss that is reclassified from other comprehensive income is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in the statement of profit or loss and other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

In subsequent periods, the appreciation of fair value of an impaired available-for-sale investment securities is recorded in fair value reserves.

3. 4 Revenue recognition

– Interest income and expenses for all interest bearing financial instruments are recognized in the statement of profit or loss and other comprehensive income using the effective interest rate method except for interest on non-performing credit facilities, in order to comply with the requirements of CBY circular No. 6 of 1996, the Group does not accrue interest on non-performing loans and advances. When an account is treated as non-performing loan, all uncollected interest relating to the three months prior to categorizing the loan as non-performing is reversed from income and transferred to other credit balances as suspense interest.

  The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

  The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

  The effective interest rate is a method of calculating the amortized costs of financial assets and financial liabilities and of allocating the interest income and expenses over the relevant period.

– Profits on Murabaha and Istisna'a contracts are recorded on the accrual basis as all profits at the completion of Murabaha contracts are recorded as deferred revenues and taken to the statement of comprehensive income depending on the finance percentage, using the straight line method over the term of the contract. In accordance with CBY instructions the Group does not accrue the profit on non- performing Murabaha and Istisna'a contracts in the statement of profit or loss and other comprehensive income.
– Profit on Mudaraba contracts, which are initiated and terminated during the financial year, are recorded in the profit or loss and other comprehensive income statement at the disposing date of Mudaraba contracts. Profit on Mudaraba contracts which last for more than one financial year, are recognized, based on the cash dividends received on these transactions during the year.
– Ijarah Muntahia Bittamleek revenues are recorded over the term of the lease contract.

- Revenue from investments in Islamic Sukuk is recognized in profit or loss and other comprehensive income statement on a time proportionate basis using the rate of return declared by the issuing institutions.
- Revenue from investments in associates is recorded based on the Group's share in the equity of these companies in accordance with the approved financial statements of these companies.
- Income from held to maturity investment securities is recognized based on the effective interest rate method.
- Dividends income is recognized when the right to receive income is established.
- In accordance with CBY instructions, the reversed provisions, no longer required provisions, are recorded in the statement of profit or loss and other comprehensive income under "other operating income".
- Fee and commissions income are recognized when the related services are performed.

3. 5 Provision of loans, advances, Islamic financings, and contingent liabilities

In order to comply with CBY circular No. 6 of 1996, No. 5 of 1998 and No. 8 of 2015 relating to classification of assets and liabilities, provision is provided for specific loans, advances, financing activities and contingent liabilities, in addition to a percentage for general risks calculated on the total of other loans, advances, financing activities and contingent liabilities after deducting balances secured by deposits and banks' guarantees issued by foreign credit worthy banks. The provision is determined based on periodical comprehensive reviews of the credit portfolio and contingent liabilities. Accordingly, the provision is provided in accordance with the following minimum rates:

details	Average
Performing loans and advances, financing activities and contingent liabilities, including watch list accounts	1-2%
Non-performing loans and advances, financing activities and contingent liabilities:	
Substandard debts	15%
Doubtful debts	45%
Bad debts	100%

Loans, advances and financing activities are written off if procedures taken towards their collection prove useless, or if directed by CBY examiners upon review of the portfolio by debiting the provision. Proceeds from loans previously written off in prior years are credited to the provision.

Loans, advances and financing activities to customers and banks are presented on the statement of financial position net of provision and suspense interest.

3. 6 Contingent liabilities and commitments

Contingent liabilities and commitments, in which the Group is a party, are presented off financial position, net of any margins held from customers, under "contingent liabilities and commitments" as they do not represent actual assets or liabilities at financial statements date.

3. 7 Statement of cash flows

The Group uses the indirect method to present cash flows, whereby net profit or loss is adjusted with net cash flows from (used in) operating, investing and financing activities.

3. 8 Cash and cash equivalent

For the purpose of preparing the consolidated statement of cash flows, cash and cash equivalent consist of cash on hand, due from banks other than reserve balances and treasury bills - held to maturity which are due within three months from the issuance date. Cash and cash equivalents are non-derivative financial assets stated at mortised cost in the consolidated statements of financial position.

3. 9 Property, equipment and depreciation

a. Recognition and measurement

Property and equipment are measured at cost less accumulated depreciation and impairment losses, if any.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items, (major components) of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and is recognized net within “other income/expenses” in the statement of profit or loss and other comprehensive income. When revalued assets are sold, any related amount included in the revaluation surplus reserve is transferred to retained earnings.

b. Subsequent costs

The cost of replacing a component of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of profit or loss and other comprehensive income as incurred.

c. Depreciation

Depreciation is based on the cost of an asset less its residual value, if any. Significant components of individual assets are assessed and if a component has useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation for property and equipment except land, is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each component of an item of property and equipment.

The estimated useful lives are as follows:

Details	Estimated Useful Lives
Buildings and constructions	50 years
Furniture and equipment	5 – 10 years
Points of sale and ATM	5 years
Motor vehicles	5 years
Leasehold improvements	10 years or the lease term, whichever is less

The depreciation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3. 10 Impairment of non-financial assets

The carrying amounts are reviewed at each reporting date for indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized in the consolidated statement of profit or loss and other comprehensive income to the extent that carrying values do not exceed the recoverable amounts.

3. 11 Other provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. 12 Valuation of assets whose titles have been transferred to the Group as a repayment of loans

According to CBY instructions, assets whose titles have been transferred to the Group are presented in the statement of financial position under debit balances and other assets at the acquired values, less any impairment in their values, if any, at the financial statements date. Impairment losses are charged to the statement of profit or loss and other comprehensive income.

3. 13 Lease contracts

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under these leases are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease.

3. 14 Valuation of investments in associates

- An associate is an entity over which the Group exerts significant influence, but not control, over financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 to 50 percent of the voting power of the associate.
- Investments in associates are recorded at the acquisition cost. At the financial statements date, the values of these investments are adjusted according to the Group's share is the equity in the associate based on the approved financial statements of these companies. Such changes are reflected in the consolidated statement of profit or loss and other comprehensive income.

3. 15 Islamic financing and investing contracts

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as, Murabaha, Istisna'a, Mudaraba and Ijara. The note no (3.4) presented the revenue recognition related to these instruments.

a. Murabaha and Istisna'a Financing

Murabaha is an agreement whereby the Group sells to a customer a commodity or an asset, which the Group has previously purchased and acquired based on a promise to buy from the customer. The selling price comprises the cost plus an agreed profit margin.

Istisnaa's is an agreement between the Group and a customer whereby the Group sells to the customer a developed asset according to agreed upon specifications, for an agreed upon price.
Debts related to Murabaha financing and Istisna'a transactions, whether short or long- term, are recorded at cost plus agreed-upon profits.

b. <u>Mudaraba</u>

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any generated profits are distributed between the parties according to the profit shares that were pre-agreed upon in the contract. The Mudarib is responsible for all losses caused by his misconduct, negligence or violation of the terms and conditions of the Mudaraba; otherwise, losses are borne by Rab Al Mal.

c. <u>Ijarah Muntahia Bittamleek</u>

Ijarah Muntahia Bittamleek is an agreement whereby the Group (as lessor) leases an asset to the customer (as lessee) after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease against certain rental payments for a specific lease term/periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (lessee) provides the Bank (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

At the end of the lease term, title of leased assets passes to the lessee, provided that all Ijarah installments are settled by the lessee.

Assets acquired for Ijarah Muntahia Bittamleek are recorded at historical cost less accumulated depreciation and impairment losses. They are depreciated, except for land, over the term of the Ijarah contract.

3. 16 Return to unrestricted investments and saving accounts holders

Return due on unrestricted investments and saving accounts is determined on the basis of Mudarba contract, which determines profit (loss) sharing basis during the period.

3. 17 Taxation

- Corporate tax is calculated in accordance with the prevailing laws and regulations in the Republic of Yemen.
- Up to December 31, 2009, the Group was not subject to commercial and industrial profits tax and Income Tax, in accordance with Article (21) of Law No. (39) of 1982, concerning the establishment of the Bank, Income Tax Law No. (31) of 1991 and its subsequent amendments by Republican Decree No. (12) of 1999 and the provisions of Article No. (85) of Law No. (38) of 1998 related to banks.
- Starting from the year 2010, in accordance with Article (160) of Income Tax Law No. (17) of 2010, the net income for the Bank for the year 2010 is subject to income tax at the rate of 20%.
- Due to the characteristics of the tax accounting in Yemen, application of International Accounting Standard on Income Taxes does not usually result in deferred tax liabilities. In the case that deferred tax assets have resulted from the application of this standard, these assets are not booked unless there is assurance that these assets will be realized in the near future.

3. 18 Social security provision

a All employees of the Group are contributing to the social security scheme in accordance with the Republic of Yemen's Social Insurance Law No. (26) of 1991, and Law No. (25) of 1991. Payments are made to the Social Security General Corporation before the 10th day of next month. The Group's contribution is charged to the statement of profit or loss and other comprehensive income .

b The provisions of Social Insurance Law are applied to all employees of the Group concerning the end of service benefits.

3. 19 Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the date of consolidated statement of financial position are dealt as a separate disclosure.

3. 20 Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3. 21 Comparatives

Except when standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

3. 22 Zakat due on shareholders

The Group remits the Zakat due on the shareholders to the relevant governmental authority which decides on the allocation of Zakat.

3. 23 Shari'aboard

The Islamic branch activities are subject to the supervision of the Shari'a board. The Shari'a board's responsibility is the supervision and monitoring of the Shari'a aspects for the Islamic activities according to Islamic Shari'a principles.

3. 24 Parent bank financial information

Statement of financial position and statement of profit or loss and other comprehensive income of the bank (Parent) as disclosed in the supplementary information to the financial statements are prepared by using the same accounting policies as mentioned above except for the investment in subsidiaries which are recorded at cost.

4. New Changes in Accounting Policies

4. 1 New and revised standards that are effective for annual periods beginning on or after January 1, 2015

Amendments to IFRSs that became mandatorily effective in 2015 have no material impact on the Group's financial results or position. Accordingly, the Group has made no changes to its accounting policies in 2015.

4. 2 Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group

At the date of authorization of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

- **IFRS 9 'Financial Instruments' (2014)**

The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Group's management have yet to assess the impact of IFRS 9 on these financial statements. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018.

- **IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018. The Group's management has started to assess the impact of IFRS 15 but is not yet in a position to provide quantified information.

- **Amendments to IFRS 11 Joint Arrangements**

These amendments provide guidance on the accounting for acquisitions of interests in joint operations constituting a business. The amendments require all such transactions to be accounted for using the principles on business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs except where those principles conflict with IFRS 11. Acquisitions of interests in joint ventures are not impacted by this new guidance.

The amendments are effective for reporting periods beginning on or after January 1, 2016.

5. Financial Instruments and Their Related Risks Management

5. 1 Financial instruments

a. Financial instruments

The Group's financial instruments are represented in financial assets and liabilities. Financial assets include cash balances, due from banks, investment securities, loans, advances and financing activities to customers and other financial assets. Financial liabilities include customers' deposits, due to banks and financial institutions, long- term loans and other financial liabilities. Also, financial instruments include rights and obligations stated in contingent liabilities and commitments.

Note (3) to the consolidated financial statements includes significant accounting policies applied for recording and measuring significant financial instruments and their related revenues and expenses.

b. Fair value hierarchy

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Fair values are based on quoted prices (unadjusted) in active markets for identical assets.
- Level 2: Fair values are based on inputs other than quoted prices included within level 1 that are observable for the assets either directly (i.e. as price) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Fair values are based on valuation techniques using unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable input have a significant impact on the instrument's valuation.

The fair values for available-for-sale investments comprise YR 744,371 thousand as at December 31, 2015 (YR 1,922,173 thousand as at December 31, 2014) under the level 3 category. There are no investments qualifying for levels 1 and 2 fair value disclosures.

c. Financial instruments for which fair value approximates carrying value.

For financial assets and financial liabilities that are liquid or having a term maturity of less than three months, the carrying amounts approximate to their fair value.

d. Fair value of financial instruments

The fair value of financial assets traded in organized financial markets is determined by reference to quoted market bid prices on a regulated exchange at the close of business on the year-end date. For financial assets where there is no quoted market price, a reasonable estimate of fair value is determined by reference to the current market value of another instrument which is substantially the same. Where it is not possible to arrive at a reliable estimate of the fair value, the financial assets are carried at cost until sometime reliable measure of the fair value is available.

Based on valuation bases of the Group's assets and liabilities stated in the notes to the consolidated financial statements, the fair value of financial instruments does not differ fundamentally from their book value at the consolidated financial statements date.

The following table provides a comparison by class of the carrying amount and fair values of the Group's financial instruments that are carried in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

2015	Held to Maturity YR 000s	Loans and Advances YR 000s	Available-for Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
Financial Assets						
Cash on hand and reserve balances with CBY	-	29,999,735	-	-	29,999,735	29,999,735
Due from banks	-	17,945,773	-	-	17,945,773	17,945,773
Loans, advances and financing activities, net	-	38,138,851	-	-	38,138,851	38,138,851
Investments securities:						
Measured at fair value	-	-	744,371	-	744,371	744,371
Measured at amortized cost	249,479,963	-	-	-	249,479,963	249,479,963
Investments in Islamic Sukuk	14,667,000	-	-	-	14,667,000	14,667,000
	264,146,963	**86,084,359**	**744,371**	**-**	**350,975,693**	**350,975,693**
Financial Liabilities						
Due to banks and financial institutions	-	-	-	14,081,808	14,081,808	14,081,808
Customers' deposits	-	-	-	309,577,769	309,577,769	309,577,769
Long-term loans	-	-	-	2,756,188	2,756,188	2,756,188
	-	**-**	**-**	**326,415,765**	**326,415,765**	**326,415,765**

2014	Held to Maturity YR 000s	Loans and Advances YR 000s	Available-for Sale YR 000s	Other Amortized Cost YR 000s	Total Carrying Amount YR 000s	Fair Value YR 000s
Financial Assets						
Cash on hand and reserve balances with CBY	-	43,334,926	-	-	43,334,926	43,334,926
Due from banks	-	28,556,334	-	-	28,556,334	28,556,334
Loans, advances and financing activities, net	-	63,109,804	-	-	63,109,804	63,109,804
Investments securities:						
Measured at fair value	-	-	1,922,173	-	1,922,173	1,922,173
Measured at amortized cost	323,282,934	-	-	-	323,282,934	323,282,934
Investments in Islamic Sukuk	12,000,000	-	-	-	12,000,000	12,000,000
	335,282,934	**135,001,064**	**1,922,173**	**-**	**472,206,171**	**472,206,171**
Financial Liabilities						
Due to banks and financial institutions	-	-	-	21,374,311	21,374,311	21,374,311
Customers' deposits	-	-	-	424,409,039	424,409,039	424,409,039
Long-term loans	-	-	-	2,789,782	2,789,782	2,789,782
	-	**-**	**-**	**448,573,132**	**448,573,132**	**448,573,132**

5. 2 Risk management of financial instruments

a. Risk management frame work

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Groups accountable for the risk exposures relating to his or her responsibilities.

b. Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks, however, there are separate independent bodies responsible for managing and monitoring risks including the following:

- **Assets and Liabilities Committee:** The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return for its impact on profitability.
- **Audit Committee:** the Audit Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

c. Risk measurement

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group willing to accept, with additional emphasis on selected industries. The Group exposed to credit risk, liquidity risk, market risk (which include interest rate risk and currency risk), operating risk and other risk.

d. Credit risk

Loans and credit facilities to customers and banks, current accounts and deposits with banks and rights and obligations from others are considered as financial assets exposed to credit risk. Credit risk represents the inability of these parties to meet their obligations when they fall due.

- **Management of credit risk**

The Group uses an internal risk rating system to assess the credit quality of borrowers and counterparties. The risk rating system has 5 grades. Grades 1 and 2 are performing loans, advances and Islamic financing activities and Grades 3-5 are non- performing. Non-performing grades are classified based on the below criteria which agree with CBY instructions:

Grade	Classification	Criteria
3	Sub-standard loans, advances and Islamic financing activities.	Overdue greater than 90 days, and shows some loss due to adverse factors that hinder repayment.
4	Doubtful loans, advances and Islamic financing activities.	Overdue greater than 180 days, and based on available information, full recovery seems doubtful, leading to loss on portion of these loans.
5	Bad loans, advances and Islamic financing activities.	Overdue greater than 360 days, and probability of no recovery.

The performing loans and advances portfolio and Islamic financing activities of the Group based on the internal credit ratings is as follows (excluding cash secured loans and advances):

Grade	Classification	2015 YR 000s	2014 YR 000s
1-2	Performing and watch-list	39,358,563	61,768,438

In order to comply with CBY circular No. (10) of 1997 regarding to the credit risk exposure, the Group applies some procedures in order to properly manage its credit risk. The following are examples of the procedures applied by the Group:

- Preparing credit studies on customers and banks before dealing with them and determining their related credit risk rates.
- Obtaining sufficient collaterals to minimize the credit risk exposure which may result from financial problems facing customers or banks.
- Following up and periodical reviews of customers and banks in order to evaluate their financial positions, credit rating and the required provision for non-performing loans.
- Distributing credit portfolio and balances with banks over diversified sectors to minimize concentration of credit risk.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation by the use of collateral agreements:

	2015 YR 000s	2014 YR 000s
Cash on hand and reserve balances with CBY (excluding cash on hand and ATM)	23,188,908	30,481,651
Due from banks	17,945,773	28,556,334
Loans, advances and financing activities, net	38,138,851	63,109,804
Investments securities	250,224,334	325,205,107
Investments in Islamic Sukuk	14,667,000	12,000,000
Investments in associates	632,988	618,949
Debit balances and other assets after deducting the advance payment, net	3,553,618	4,823,521
	348,351,472	**464,795,366**
Contingent liabilities and commitments	44,838,045	77,405,590
Total credit risk exposure	**393,189,517**	**542,200,956**

The following analysis of the Group's financial assets and contingent liabilities by industry sector, before and after taking into account collateral held of other credit enhancements (risk concentration for maximum exposure to credit risk by industry sector) is as follows:

	2015		2014	
	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s	Gross Maximum Exposure YR 000s	Net Maximum Exposure YR 000s
Government	293,420,417	-	362,830,799	-
Finance	13,238,586	2,551,387	46,884,117	8,824,291
General trade	23,759,789	1,443,776	37,219,123	3,802,529
Industry	443,709	138,210	6,982,085	950,326
Service	2,686,108	219,319	1,492,897	131,442
Individuals	9,929,794	8,015,005	6,510,903	5,933,762
Contractors	585,760	81,256	1,397,585	914,221
Others	4,287,309	120,883	1,477,857	833,745
	348,351,472	**12,569,836**	**464,795,366**	**21,390,316**
Contingent liabilities and commitments	44,838,045	36,061,444	77,405,590	63,540,236
	393,189,517	**48,631,280**	**542,200,956**	**84,930,552**

The Group manages concentration of risk by distributing the portfolio over diversified economic sectors and geographical locations. Note no. 42 to the consolidated financial statements shows the distribution of assets, liabilities, contingent liabilities and commitments based on economic sectors and Note no. 43 to the consolidated financial statements shows the distribution of financial instruments based on geographical locations at the consolidated financial statements date.

e. Liquidity risk

Liquidity risk arises from cash flows generated by assets and liabilities, not being matched in currency, size and term, thereby creating financing needs which potentially cannot be met without incurring substantially higher costs or at any cost at all.

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due and other risks related to sufficient liquidity without incurring losses on timely basis.

- **Management liquidity risk**

The Group's management in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis and has arranged diversified funding sources.

The Central Bank of Yemen circular No. 3 of 1997 requires that the liquidity ratio be 25% as a minimum. The liquidity ratio at December 31, 2015 was 83.73% (at December 31, 2014 was 79.11%).

The table below shows the maturity analysis for financial liabilities that shows the remaining contractual maturities:

2015	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	14,081,808	-	-	-	14,081,808
Customers' deposits	297,902,578	247,206	8,388	11,419,597	309,577,769
Long-term loans	-	-	-	2,756,188	2,756,188
Credit balances and other liabilities	5,129,326	-	-	3,715,410	8,844,736
Total liabilities	**317,113,712**	**247,206**	**8,388**	**17,891,195**	**335,260,501**

2014	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Liabilities					
Due to banks and financial institutions	21,374,311	-	-	-	21,374,311
Customers' deposits	417,440,965	2,014,978	1,953,096	3,000,000	424,409,039
Long-term loans	-	-	-	2,789,782	2,789,782
Credit balances and other liabilities	-	-	-	9,303,047	9,303,047
Total liabilities	**438,815,276**	**2,014,978**	**1,953,096**	**15,092,829**	**457,876,179**

Note No. 40 to the financial statements shows the maturity analysis of financial assets and liabilities and the net gap between them at the consolidated financial statements date compared with last year.

f. Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income, future cash flows or the value of its holdings of financial instruments. Market risk consists of exchange rate risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

- **Management of market risk**

The Group separate exposure market risk between two portfolios, one for trading portfolios and non-trading portfolios. The Group does not have a trading positions in equity and the main source for risk for the Group is the fluctuations in foreign exchange rates and interest rate.

The Group does not deal in forward or options contracts, except to the extent to cover the Group needs or the customers' transactions with the Group in foreign currencies, which are settled in short term periods.

All foreign exchange income/losses arising out of customer transactions and revaluation of statement of financial position assets and liabilities are booked by the treasury department. The responsibility for monitoring and managing the related risks also rests with the Treasury department.

Overall authority for market risk management is vested with the Asset and Liability Management Committee. The Risk Management Department is responsible for the development of detailed risk management policies (subject to review and approval by appropriate approving authorities) and the Financial Control Department is responsible for the day-to-day review of their implementation.

g. Exposure to interest rate risk - non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The Asset and Liability Committee (ALCO) is the monitoring body for compliance with these limits and is assisted by Risk Management Department in its day-to-day monitoring activities.

Interest rate risk arises form the possibility that changes in interest rates will affect the value of some of the financial instruments. The Group performs a number of procedures to limit the effect of such risk to the minimal level as follows:

- Correlating interest rates on borrowing with interest rates on lending.
- Considering the discount rates for different currencies when determining interest rates.
- Monitoring the matching of maturity dates of financial assets and liabilities.

The table below shows interest rate gap position on non-trading portfolios:

	2015						Average interest rates	
	Less than 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year	Non-interest sensitive	Total	Local Currency	Foreign Currency
	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	%	%
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	29,999,735	29,999,735	-	-
Due from banks	6,722,019	71,979	2,500,000	-	8,651,775	17,945,773	15.37%	0.25%
Loans and advances and financing activities, net	29,163,898	3,445,778	3,001,235	2,527,940	-	38,138,851	22.00%	10.00%
Investments securities	190,369,021	37,292,742	21,818,200	-	744,371	250,224,334	16.04%	-
Investments in Islamic Sukuk	-	-	-	14,667,000	-	14,667,000	12.00%	-
Investments associates	-	-	-	-	632,988	632,988	-	-
Debit balances and other assets, net	-	-	-	-	4,353,952	4,353,952	-	-
Property and equipment, net	-	-	-	-	3,200,865	3,200,865	-	-
Total assets	**226,254,938**	**40,810,499**	**27,319,435**	**17,194,940**	**47,583,686**	**359,163,498**	**-**	**-**
Liabilities and equity								
Due to banks and financial institutions	12,821,426	-	-	-	1,260,382	14,081,808	15.00%	4.50%
Customers' deposits	150,564,080	247,206	8,388	11,419,597	147,338,498	309,577,769	15.00%	3.77%
Long-term loans	-	-	-	2,756,188	-	2,756,188	2.60%	2.00%
Credit balances and other liabilities	-	-	-	-	8,844,736	8,844,736	-	-
Other provisions	-	-	-	-	1,968,168	1,968,168	-	-
Shareholders' equity	-	-	-	-	21,934,829	21,934,829	-	-
Total liabilities and equity	**163,385,506**	**247,206**	**8,388**	**14,175,785**	**181,346,613**	**359,163,498**	**-**	**-**
Interest rate sensitivity gap	**62,869,432**	**40,563,293**	**27,311,047**	**3,019,155**	**(133,762,927)**	**-**	**-**	**-**
Cumulative interest rate sensitivity gap	**62,869,432**	**103,432,725**	**130,743,772**	**133,762,927**	**-**	**-**	**-**	**-**

	2014						Average interest rates	
	Less than 3 months	From 3 months to 6 months	From 6 months to 1 year	Over 1 year	Non-interest sensitive	Total	Local Currency	Foreign Currency
	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	YR 000s	%	%
Assets								
Cash on hand and reserve balances with CBY	-	-	-	-	43,334,926	43,334,926	-	-
Due from banks	5,436,710	-	285,750	-	22,833,874	28,556,334	-	-
Loans and advances and financing activities, net	40,360,935	5,532,900	10,333,230	6,781,701	101,038	63,109,804	25%	5%
Investments securities	230,282,539	55,461,009	33,078,519	4,460,867	1,922,173	325,205,107	16%	-
Investments in Islamic Sukuk	-	-	-	12,000,000	-	12,000,000	12%	-
Investments in associates	-	-	-	-	618,949	618,949	-	-
Debit balances and other assets, net	-	-	-	-	5,763,591	5,763,591	-	-
Property and equipment, net	-	-	-	-	3,070,301	3,070,301	-	-
Total assets	**276,080,184**	**60,993,909**	**43,697,499**	**23,242,568**	**77,644,852**	**481,659,012**	**-**	**-**
Liabilities and equity								
Due to banks and financial institutions	21,128,812	-	-	-	245,499	21,374,311	15.1%	4.48%
Customers' deposits	240,483,391	2,014,978	1,953,096	3,000,000	176,957,574	424,409,039	15%	4.08%
Long-term loans	-	-	-	2,789,782	-	2,789,782	2.60%	2%
Credit balances and other liabilities	-	-	-	-	9,303,047	9,303,047	-	-
Other provisions	-	-	-	-	4,199,423	4,199,423	-	-
Shareholders' equity	-	-	-	-	19,583,410	19,583,410	-	-
Total liabilities and equity	**261,612,203**	**2,014,978**	**1,953,096**	**5,789,782**	**210,288,953**	**481,659,012**	**-**	**-**
Interest rate sensitivity gap	**14,467,981**	**58,978,931**	**41,744,403**	**17,452,786**	**(132,644,101)**	**-**	**-**	**-**
Cumulative interest rate sensitivity gap	**14,467,981**	**73,446,912**	**115,191,315**	**132,644,101**	**-**	**-**	**-**	**-**

- **Interest rate sensitivity**

The following table demonstrates the sensitivity to a possible and reasonable change in interest rates, with all other variables held constant. The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate of non-trading financial assets and financial liabilities. The sensitivity of the equity is the net change in interest income after deducting the income tax effect:

		2015 The effect of increase in interest rate 2%	
	Cumulative Interest Rate Sensitivity Gap YR 000s	Sensitivity of Net Interest Income (Statement of Profit or Loss and Other Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	150,740,446	3,014,809	2,411,847
US Dollars	(17,412,816)	(348,256)	(278,605)
Saudi Rials	184,890	3,698	2,958
Euro	(12,620)	(252)	(202)
Other	3,329	67	53

		2015 The effect of decrease in interest rate 2%	
	Cumulative Interest Rate Sensitivity Gap YR 000s	Sensitivity of Net Interest Income (Statement of Profit or Loss and Other Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	150,740,446	(3,014,809)	(2,411,847)
US Dollars	(17,412,816)	348,256	278,605
Saudi Rials	184,890	(3,698)	(2,958)
Euro	(12,620)	252	202
Other	3,329	(67)	(53)

		2014 The effect of increase in interest rate 2%	
	Cumulative Interest Rate Sensitivity Gap YR 000s	Sensitivity of Net Interest Income (Statement of Profit or Loss and Other Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	139,672,500	2,793,450	2,234,760
US Dollars	(26,248,584)	(524,972)	(419,977)
Saudi Rials	199,391	3,988	3,190
Euro	1,583,819	31,676	25,341
Other	(15,811)	(316)	(253)

		2014 The effect of decrease in interest rate 2%	
	Cumulative Interest Rate Sensitivity Gap YR 000s	Sensitivity of Net Interest Income (Statement of Profit or Loss and Other Comprehensive Income) YR 000s	Sensitivity of Equity YR 000s
Currency			
Yemeni Rials	139,672,500	(2,793,450)	(2,234,760)
US Dollars	(26,248,584)	524,972	419,977
Saudi Rials	199,391	(3,988)	(3,190)
Euro	1,583,819	(31,676)	(25,341)
Other	(15,811)	316	253

h. Exposure to exchange rate risk for foreign currency

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the Yemeni Rial.

Due to the nature of the Group's activity, the Group deals in different foreign currencies, hence it is exposed to exchange rate risk. In order to minimize the exposure to exchange rate risk, the Group is trying to maintain a balanced foreign currencies position in compliance with CBY instructions and the requirements of CBY circular No. 6 of 1998 which specifies that individual foreign currency positions should not exceed 15% of the Group's capital and reserves, and that the aggregate open position for all foreign currencies should not exceed 25% of the Group's capital and reserves.

In order to comply with CBY circular No. 6 of 1998, the Group regularly monitors its foreign currency positions and sells the excess funds in foreign currencies at the prevailing rates on the dates of sale.

The table below shows the Group's significant net exposures to foreign currencies:

	2015					
	US Dollars YR 000s	Euro YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Others YR 000s	Total YR 000s
Assets	45,510,924	1,075,540	2,222,032	98,770	28,564	48,935,830
Liabilities	(110,111,719)	(3,124,522)	(5,524,464)	(241,888)	(644,908)	(119,647,501)
Net currency position	**(64,600,795)**	**(2,048,982)**	**(3,302,432)**	**(143,118)**	**(616,344)**	**(70,711,671)**

	2014					
	US Dollars YR 000s	Euro YR 000s	Saudi Rial YR 000s	Sterling Pound YR 000s	Others YR 000s	Total YR 000s
Assets	76,450,565	4,886,511	4,884,677	148,656	310,958	86,681,367
Liabilities	(141,207,230)	(4,842,154)	(6,332,430)	(229,964)	(115,345)	(152,727,123)
Net currency position	**(64,756,665)**	**44,357**	**(1,447,753)**	**(81,308)**	**195,613**	**(66,045,756)**

Effect of change in fair value of currency

The table below indicates the effect of a reasonably possible movement of the currency rate against the Yemeni Riyal on the statement of profit or loss and other comprehensive income, with all other variables held constant:

Change in currency rate (1%)	Effect on statement of profit or loss and other Comprehensive Income (increase/ decrease)	
Currency	2015 YR 000s	2014 YR 000s
US$	(646,008)	(647,567)
Saudi Rial	(33,024)	(14,478)
Euro	(20,490)	444
Sterling Pound	(1,431)	(813)
Other Currencies	(6,163)	1,956

Note 44 to the consolidated financial statements indicates the significant foreign currencies' positions at the consolidated financial statements date compared with the last year.

i. Operational risk

Operational risk is the risk of direct or indirect loss due to an event or action causing failure of technology, process, infrastructure, personnel and other risks having an operational risk impact. The Group seeks to minimize actual or potential losses from operational risks failure through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

j. Other risks

Other risks to which the Group is exposed are regulatory risk, legal risk, and reputational risk. Regulatory risk is controlled through a framework of compliance policies and procedures. Legal risk is managed through the effective use of internal and external legal advisers. Reputational risk is controlled through the regular examination of issues that are considered to have reputational repercussions for the Group, with guidelines and policies being issued as appropriate.

6. Capital Management

The primary objectives of the Group's capital management are to ensure that the Group complies with the capital requirements issued by CBY and that the Group maintains strong credit ratings and excellently capital ratios. The capital adequacy is monitored on a quarterly basis by the management of the Group employing techniques based on the guidelines as implemented by the CBY for supervisory purposes. The required information is filed with CBY on a quarterly basis, in order to comply with the requirement of CBY circular no. (2) of 1997.

The CBY requires each bank in Yemen to maintain a minimum ratio of total capital to the risk- weighted assets at or above the internationally agreed minimum of 8%. In addition, the Bank is required to maintain a minimum ratio of total capital to the customer deposits at or above 5%.

The capital adequacy ratio calculated in accordance the guidelines of CBY compares the Bank core and supplementary capital with the risk weighted total assets and liabilities at the financial statements date, as follows:

	2015 YR Million	2014 YR Million
Core capital	21,716	19,428
Supplementary capital	663	778
Total capital	**22,379**	**20,206**
Risk-weighted assets and contingent liabilities and commitments:		
Total assets	27,318	57,608
Contingent liabilities and commitments	29,241	33,535
Total risk-weighted assets and contingent liabilities and commitments	**56,559**	**91,143**
Capital adequacy ratio	**39.6%**	**22.2%**

The core capital consists of paid-up capital, reserves and retained earnings (after deducting investment in any local bank or financial company) while supplementary capital consists of general provisions on performing debts with the percentage of 1% which should not exceed 2% of the risk weighted assets.

7. Cash on Hand and Reserve Balances with Central Bank of Yemen

This item consists of the following as of December 31:

	2015 YR 000s	2014 YR 000s
Cash on hand and at ATM - local currency	3,665,840	8,508,014
Cash on hand and at ATM - foreign currency	3,144,987	4,345,261
	6,810,827	**12,853,275**
Mandatory reserve with CBY - local currency	14,691,083	19,694,173
Mandatory reserve with CBY - foreign currency	8,497,825	10,787,478
	23,188,908	**30,481,651**
	29,999,735	**43,334,926**

The mandatory reserve balances with CBY represent the minimum reserve requirements against customers' accounts in Yemeni Rial and foreign currencies (without interest). These funds are not available for the Group's daily business.

8. Due from Banks

This item consists of the following as of December 31:

	2015 YR 000s	2014 YR 000s
Central Bank of Yemen		
Current accounts - local currency	5,204,132	4,989,440
Current accounts - foreign currency	136,043	1,077,174
	5,340,175	**6,066,614**
Local banks		
Current accounts - local currency	158	2,453
Current accounts - foreign currency	36	6,053
Short-term deposits - local currency	9,222,019	4,000,000
	9,222,213	**4,008,506**
Foreign banks		
Current accounts - local currency	832,034	784,304
Current accounts - foreign currency	2,479,372	15,974,450
Short-term deposits - foreign currency	71,979	1,722,460
	3,383,385	**18,481,214**
	17,945,773	**28,556,334**

Short-term deposits with foreign banks carry variable interest rates while current accounts with CBY, local and foreign banks do not carry any interest.

9. Loans, Advances and Islamic Financing Activities (Net)

9. 1 Loans, advances and Islamic financing activities by type

This item consists of the following as of December 31:

	Note	2015 YR 000s	2014 YR 000s
Trading & Agricultural Loans and Advances			
Overdraft		32,838,126	43,834,369
L/Cs financing		517,476	7,894,606
Loans to customers		28,202,459	26,305,588
Agricultural loans		472,065	306,466
		62,030,126	**78,341,029**
Less: Provision for loans and advances (trading & agricultural)	**(10.1-a)**	(16,552,561)	(13,807,501)
Less: Uncollected interest	**(11)**	(11,890,022)	(9,603,755)
		33,587,543	**54,929,773**
Islamic financing activities balances			
Murabaha transactions financing		1,738,377	5,103,058
Istisna'a transactions financing		2,660,299	574,653
Mudaraba investment contracts		-	745,635
Ijarah Muntahia Bittamleek		2,773,591	2,978,983
		7,172,267	**9,402,329**
Less: Provision for financing activities	**(10.1-b)**	(845,674)	(92,694)
Less: Uncollected revenue		(123,734)	(2,554)
Less: Deferred revenue		(248,102)	(160,002)
Less: Accumulated depreciation for Ijarah Muntahia Bittamleek		(1,403,449)	(967,048)
		4,551,308	**8,180,031**
		38,138,851	**63,109,804**

According to the Banks Law No. 38, of 1998, Article No. 85, and Income Tax Law No. 17, of 2010, Article No. 14, all provisions made in compliance with the Central Bank of Yemen instructions on loans, advances, and contingent liabilities are exempt from income tax.

Non-performing loans, advances and financing activities amounted to YR 17,674,111 thousand as at December 31, 2015 after deducting uncollected interest and revenue by amount of YR 12,013,756 thousand and balances secured by cash deposits by amount of YR 1,195,821 thousand. As at December 31, 2014, the non-performing loans, advances and financing activities amounted to YR 15,203,354 thousand after deducting uncollected interest and revenue by amount of YR 9,606,309 thousand and balances secured by cash deposits by amount of YR 1,165,257 thousand. The break-up of the above amount is as follows:

	2015 YR 000s	2014 YR 000s
Substandard loans, advances and financing activities	880,045	490,142
Doubtful loans, advances and financing activities	759,092	1,895,997
Bad loans, advances and financing activities	16,034,974	12,817,215
	17,674,111	**15,203,354**

9. 2 Loans, advances and financing activities by sector

	2015					
	Overdraft YR 000s	L/C finance YR 000s	Loans to customers YR 000s	Agricultural loans YR 000s	Financing activities YR 000s	Total YR 000s
Agricultural	1,683,920	-	379,908	472,065	-	2,535,893
Trading	17,341,759	517,476	11,538,295	-	2,660,754	32,058,284
Industry	2,349,415	-	2,087,323	-	-	4,436,738
Service	3,412,198	-	802,422	-	-	4,214,620
Finance	305,364	-	-	-	-	305,364
Individuals and others	7,745,470	-	13,394,511	-	4,511,513	25,651,494
	32,838,126	**517,476**	**28,202,459**	**472,065**	**7,172,267**	**69,202,393**

	2014					
	Overdraft YR 000s	L/C finance YR 000s	Loans to customers YR 000s	Agricultural loans YR 000s	Financing activities YR 000s	Total YR 000s
Agricultural	1,643,111	-	898,490	306,466	-	2,848,067
Trading	26,254,313	6,445,427	11,329,226	-	5,318,834	49,347,800
Industry	6,459,369	762,954	1,883,632	-	-	9,105,955
Service	1,907,479	-	439,628	-	-	2,347,107
Finance	58,580	-	-	-	-	58,580
Individuals and others	7,511,517	686,225	11,754,612	-	4,083,495	24,035,849
	43,834,369	**7,894,606**	**26,305,588**	**306,466**	**9,402,329**	**87,743,358**

The amounts above are shown gross figures before subtracting the provision for loans, advances, financing activities, uncollected interest and revenue and deferred revenue.

10. Provision for Loans, Advances and Financing Activities (Performing and Non-Performing)

10. 1 Provision for loans, advances and financing activities by type

a Provision for trading and agricultural loans and advances

	2015 Specific YR 000s	2015 General YR 000s	2015 Total YR 000s	2014 Specific YR 000s	2014 General YR 000s	2014 Total YR 000s
Balance at beginning of the year	13,694,685	112,816	13,807,501	12,740,853	71,613	12,812,466
Retranslation differences of provision in foreign currencies	(985)	-	(985)	(1,316)	-	(1,316)
Add: Provided during the year (Note 36)	2,994,156	-	2,994,156	1,293,616	41,203	1,334,819
Less: Used during the year	(153,203)	-	(153,203)	(338,468)	-	(338,468)
Less: Provision reversed	-	(94,908)	(94,908)	-	-	-
Transferred from general to specific Provision	(91,394)	91,394	-	-	-	-
Balance at end of the year	**16,443,259**	**109,302**	**16,552,561**	**13,694,685**	**112,816**	**13,807,501**

b Provision for financing activities

	2015 Specific YR 000s	2015 General YR 000s	2015 Total YR 000s	2014 Specific YR 000s	2014 General YR 000s	2014 Total YR 000s
Balance at beginning of the year	49,251	43,443	92,694	10,540	17,683	28,223
Add: provided during the year (Note 36)	603,589	149,391	752,980	38,711	25,760	64,471
	652,840	**192,834**	**845,674**	**49,251**	**43,443**	**92,694**

10. 2 Provision for loans, advances and financing activities by sector

a Provision for trading and agricultural loans and advances

2015	Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	10,699,596	3,106,824	1,081	13,807,501
Retranslation differences of provision in foreign currencies	(985)	-	-	(985)
Add: Provided during the year	2,871,640	122,516	-	2,994,156
Less: Used during the year	(150,188)	(3,015)	-	(153,203)
Less: Provision reversed	(94,908)	-	-	(94,908)
Balance at end of the year	**13,325,155**	**3,226,325**	**1,081**	**16,552,561**

2014	Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	9,795,347	3,016,038	1,081	12,812,466
Retranslation differences of provision in foreign currencies	(1,316)	-	-	(1,316)
Add: Provided during the year	1,228,033	106,786	-	1,334,819
Less: Used during the year	(322,468)	(16,000)	-	(338,468)
Balance at end of the year	**10,699,596**	**3,106,824**	**1,081**	**13,807,501**

b Provision for financing activities

	2015 Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	59,676	33,018	-	92,694
Add: Provided during the year	518,915	234,065	-	752,980
Balance at end of the year	**578,591**	**267,083**	**-**	**845,674**

	2014 Corporate Lending YR 000s	Small Business Lending YR 000s	Residential Mortgage YR 000s	Total YR 000s
Balance at beginning of the year	17,414	10,809	-	28,223
Add: Provided during the year	42,262	22,209	-	64,471
Balance at end of the year	**59,676**	**33,018**	**-**	**92,694**

11. Uncollected Interest

This item consists of the following as of December 31:

	2015 YR 000s	2014 YR 000s
Balance at beginning of the year	9,603,755	8,936,975
Uncollected interest written off or collected during the year	(2,410,193)	(1,984,964)
Increase during the year	4,696,460	2,651,744
Balance at end of the year	**11,890,022**	**9,603,755**

Uncollected interest is interest on non-performing loans and advances, which is recognized as revenue only when collected in accordance with CBY regulations.

12. Investment Securities

This item consists of the following as of December 31:

	Note	2015 YR 000s	2014 YR 000s
Held to maturity investments			
Treasury bills (net)	**13**	245,019,097	318,822,068
Government bonds	**14**	4,460,866	4,460,866
		249,479,963	**323,282,934**
Available for sale investments	**15**	744,371	1,922,173
		250,224,334	**325,205,107**

13. Treasury Bills (Net)

This item consists of the following as of December 31:

	2015 YR 000s	2014 YR 000s
Treasury bills maturing within 90 days	178,494,580	190,237,160
Treasury bills maturing within 180 days	44,000,000	66,300,000
Treasury bills maturing within 360 days	33,700,000	76,000,000
	256,194,580	**332,537,160**
Unearned discount balance	(11,175,483)	(13,715,092)
	245,019,097	**318,822,068**

The treasury bills carry an interest rate between 15.8% and 16.1% during the year 2015 (between 15.8% up to 16.1% during the year 2014). In accordance with the Central Bank of Yemen instructions, treasury bills which mature within a period not exceeding three months are considered as a part of cash and cash equivalents.

14. Government Bonds

	2015 YR 000s	2014 YR 000s
Government bonds (non-registered)	4,460,866	4,460,866
	4,460,866	**4,460,866**

In accordance with the Council of Ministers' Resolution No. (145) of 2006 dated April 11, 2006, Ministry of Finance should purchase the agricultural credit portfolio due to the Bank as at December 31, 2005 and according to the agreement reached between Ministry of Finance and the Bank, the Central Bank of Yemen, on behalf of the Ministry of Finance, issued government bonds maturing on April 11, 2016. According to the letter No. (180-130) dated May 10, 2016 sent by the Ministry of Finance to the Governor of the Central Bank of Yemen, these bonds have been extended for one year starting from April 11, 2016.

These bonds earn interest at the average rate of three months of treasury bills and the CBY adjusts the interest to the group account every three months.

15. Available for Sale Investments

This item consists of the following as of December 31:

		2015 YR 000s	2014 YR 000s
Financing investments – local			
Asas Real Estate Company Limited		1,049,802	1,049,802
President Saleh Housing Project		852,401	852,401
Y-Telecom		430,043	430,043
Yemeni Financial Services		59,131	59,131
Yemen Company for Manufacturing Pumps		15,750	15,750
Dates Factory in Al Tahiti		11,834	11,834
Yemen Hotels Company		2,500	2,500
Yemen Company for Marketing Agricultural Products		1,350	1,350
Yemen British Investment Company		125	125
		2,422,936	**2,422,936**
Financing investments - foreign			
CAC International Bank - Djibouti		19,970	19,970
		2,442,906	**2,442,906**
Less: Impairment for available for sale investments	**15.1**	(1,698,535)	(520,733)
		744,371	**1,922,173**

15. 1 Impairment for available-for-sale investments

	2015 YR 000s	2014 YR 000s
Balance at beginning of the year	520,733	520,733
Add: impairment during the year	1,177,802	-
Balance at end of the year	**1,698,535**	**520,733**

- All available for sale investments are unquoted financial investments. Due to the difficulty of obtaining a reliable estimate of fair value for these investments as there are no quoted market prices and future cash flows are not determinable, these investments are carried at cost.
- The Group recognized impairment for some available for sale investments because the Group did not receive any dividends from these investments during prior years and furthermore, no dividends are expected to be received in the coming years.
- All available for sale investments are non-classified by any international classification companies.

16. Investment in Islamic Sukuk

This item consists of the following as of December 31:

	2015			2014		
	Maturity Date	Number of Sukuk	Value of Sukuk YR 000s	Maturity Date	Number of Sukuk	Value of Sukuk YR 000s
Investment in Governmental Islamic Sukuk	March 27, 2017	1,000	667,000	March 31, 2017	1,000	1,000,000
Investment in Governmental Islamic Sukuk	Nov. 21, 2018	8,000	8,000,000	Nov. 21, 2018	8,000	8,000,000
Investment in Governmental Islamic Sukuk	August 19, 2017	1,000	1,000,000	-	-	-
Investment in Governmental Islamic Sukuk – restricted	Dec. 19, 2018	3,000	3,000,000	Dec. 19, 2018	3,000	3,000,000
Investment in Governmental Islamic Sukuk – restricted	August 19, 2017	2,000	2,000,000	-	-	-
		15,000	**14,667,000**		**12,000**	**12,000,000**

- The nominal value of Sukuk YR 1,000,000.
- Islamic governmental Sukuks are issued by Unit of the Islamic Sukuk at CBY.
- The Yemeni Government represented by the Ministry of Finance guarantees the Sukuk at the maturity dates and authorizes the Central Bank of Yemen to deduct such dues from the Ministry of Finance account with the Central Bank of Yemen at the maturity dates.
- The investment in the Islamic Sukuk - Restricted in investments of the Islamic Sukuk in favor of the Bank's customers.

17. Investments in Associates

	2015		2014	
	YR 000s	Share %	Share	Share %
Mareb Poultry Company	472,363	27.32	464,404	27.32
CAC Insurance Company	160,625	21.00	154,545	21.00
	632,988		**618,949**	

The breakup of the above amount is as follows:

	2015 YR 000s	2014 YR 000s
Balance at beginning of January1,	618,949	474,547
Net share in profit	14,039	146,662
Cash distributions received during the year	-	(760)
Derecognized Investments during the year	-	(1,500)
Balance at December 31,	**632,988**	**618,949**

The total of assets of Mareb Poultry Company and CAC Insurance Company amounted to YR 4,394,249 thousand and YR 2,295,951 thousand for the year 2014 respectively (Compared with YR 3,129,600 thousand and YR 1,561,844 thousand for the year 2013 respectively). Moreover, the total liabilities amounted to YR 2,665,249 thousand and YR 1,531,069 for the year 2014 thousand respectively (Compared with YR 1,429,736 thousand and YR 821,432 thousand for the year 2013 respectively). Each of Mareb Poultry Company and CAC Insurance Company has realized a net profit to amount to YR 39,287 thousand and YR 38,650 thousand for the year 2014 respectively (Compared with YR 505,640 thousand and YR 77,353 thousand for the year 2013 respectively) according to the last audited financial statements.

18. Debit Balances and Other Assets, Net

This item consists of the following as of December 31:

	Note	2015 YR 000s	2014 YR 000s
Assets transferred to the Group's ownership		3,821,262	3,817,512
Accrued income and interest		582,361	202,099
Projects in process (advances)		410,776	503,566
Prepaid expenses		389,558	436,504
Advances to employees		184,373	184,444
Other debit balances		3,847,617	3,272,818
		9,235,947	**8,416,943**
Less: Provision for doubtful debts	**19**	(4,881,995)	(2,653,352)
		4,353,952	**5,763,591**

19. Provision for Doubtful Debits

This item consists of the following as of December 31:

	Note	2015 YR 000s	2014 YR 000s
Balance at beginning of the year		2,653,352	1,299,223
Add: Provision provided during the year	**36**	2,253,883	1,357,612
Less: Provision used during the year		(24,905)	(3,033)
Retranslation differences of provision in foreign currencies		(335)	(450)
Balance at end of the year		**4,881,995**	**2,653,352**

20. Property and Equipment, Net

This item consists of the following as of December 31:

2015	Balance at January 1, 2015 YR 000s	Addition during the year YR 000s	Disposals during the year YR 000s	Balance at December 31, 2015 YR 000s	Accumulated depreciation at January 1, 2015 YR 000s	Reclassification YR 000s	Depreciation during the year YR 000s	Disposals during the year YR 000s	Accumulated depreciation at December 31, 2015 YR 000s	Net book value as at December 31, 2015 YR 000s
Land, Buildings and Constructions	1,056,570	-	-	1,056,570	244,784	(720)	22,389	-	266,453	790,117
Furniture and Equipment	5,165,532	446,912	(107,333)	5,505,111	3,485,022	2,413	467,624	(89,479)	3,865,580	1,639,531
Point of Sale and ATMs	1,485,685	47,083	-	1,532,768	1,277,464	170	86,754	-	1,364,388	168,380
Motor Vehicles	803,830	21,691	(6,233)	819,288	562,531	388	84,169	(2,732)	644,356	174,932
Leasehold Improvements	**1,108,222**	361,207	(10,608)	1,458,821	979,737	(2,251)	64,036	(10,606)	1,030,916	427,905
Total	**9,619,839**	**876,893**	**(124,174)**	**10,372,558**	**6,549,538**	**-**	**724,972**	**(102,817)**	**7,171,693**	**3,200,865**

2014	Balance at January 1, 2014 YR 000s	Addition during the year YR 000s	Disposals during the year YR 000s	Balance at December 31, 2014 YR 000s	Accumulated depreciation at January 1, 2014 YR 000s	Depreciation during the year YR 000s	Disposals during the year YR 000s	Accumulated depreciation at December 31, 2014 YR 000s	Net book value as at December 31, 2014 YR 000s
Land, Buildings and Constructions	1,013,564	43,676	(670)	1,056,570	221,440	23,508	(164)	244,784	811,786
Furniture and Equipment	4,395,858	814,763	(45,089)	5,165,532	3,086,861	438,007	(39,846)	3,485,022	1,680,510
Point of Sale and ATMs	1,409,046	76,639	-	1,485,685	1,191,073	86,391	-	1,277,464	208,221
Motor Vehicles	760,638	43,316	(124)	803,830	471,682	90,973	(124)	562,531	241,299
Leasehold Improvements	1,119,119	7,500	(18,397)	1,108,222	894,995	101,051	(16,309)	979,737	128,485
Total	**8,698,225**	**985,894**	**(64,280)**	**9,619,839**	**5,866,051**	**739,930**	**(56,443)**	**6,549,538**	**3,070,301**

21. Due to Banks and Financial Institutions

This item consists of the following as of December 31:

	2015 YR 000s	2014 YR 000s
Local banks		
Current accounts - foreign currency	82,971	198
Current accounts - local currency	20,388	47,055
Time deposits - foreign currency	8,992,244	10,358,213
	9,095,603	**10,405,466**
Foreign banks		
Current accounts - foreign currency	835,491	30,679
Current accounts - local currency	896	117,961
Time deposits - local currency	3,829,182	10,770,599
	4,665,569	**10,919,239**
Foreign financial institutions		
Current accounts - foreign currency	318,729	46,243
Current accounts - local currency	1,907	3,363
	320,636	**49,606**
	14,081,808	**21,374,311**

Current accounts and time deposits, which are due to banks carry variable interest rates.

22. Customers' Deposits

a. Customers' deposits by type

This item consists of the following as of December 31:

	2015 YR 000s	2014 YR 000s
Time deposits	150,198,088	236,288,410
Current and demand accounts	121,627,791	146,909,707
Margins of LCs and LGs	20,768,673	13,865,354
Saving accounts	10,035,489	11,463,092
Time deposits - restricted	5,000,000	3,000,000
Other deposits	1,947,728	12,882,476
	309,577,769	**424,409,039**

As at December 31, 2015 customer deposits include YR 26,378 million of margins held for direct and indirect facilities (YR 42,239 million as at December 31, 2014).

b. Customers' deposits by sector

This item consists of the following as of December 31:

	2015 YR 000s	2014 YR 000s
Corporations	99,337,136	154,822,865
Individuals	105,247,018	111,841,249
Public and mixed sectors	82,277,214	134,947,071
Others	22,716,401	22,797,854
	309,577,769	**424,409,039**

23. Long Term Loans

This item consists of the following as of December 31:

	Notes	2015 YR 000s	2014 YR 000s
Tehama Development Project - III	**23.1**	5,271	5,271
Raimah Development Project	**23.2**	5,094	6,793
Mahra Rural Development Project	**23.3**	59,699	61,594
Agricultural and Fisheries Production Promotion Fund	**23.4**	-	30,000
Arab Fund for Economic and Social Development	**23.5**	2,686,124	2,686,124
		2,756,188	**2,789,782**

23.1 Tehama Development Project - III

On April 16, 1980, the government received a loan from Reconstruction Credit Institution of Germany to activate the agricultural loans activities in the Tehama Development Project matures on April 16, 2009. The Group is executing the project through an agreement with the Ministry of Agriculture.

23.2 Raimah Development Project

On December 15, 1997, the government received a loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities in the Raimah Development Project matures on July 1, 2027. The Group is executing the project through an agreement with the Ministry of Finance.

23.3 Mahra Rural Development Project

On November 11, 1999, the government received a loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities in the Mahra Development Project matures on June 1, 2034. The Group is executing the project through an agreement with the Ministry of Finance.

23.4 Agricultural and Fishery Production Promotion Fund

On November 11, 1999, the government received a loan from International Fund for Agricultural Development (IFAD) to activate the agricultural loans activities of Agricultural and Fishery Production Promotion Fund in the rural areas of Al – Mahra matures on June 3, 2015. The Group is executing the project through an agreement with the Ministry of Finance.

23.5 Arab Fund for Economic and Social Development

On October 22, 2014, the government received the first installment of the loan from the Arab Fund for Economic and Social Development in Kuwait in the amount of USD 12.5 million from a total loan of USD 50 million to finance the small and medium enterprises in the agricultural and fisheries field mature in January 28, 2026. The Group is executing the project through an agreement with the Ministry of Planning and International Cooperation.

24. Credit Balances and Other Liabilities

This item consists of the following as of December 31:

	Note	2015 YR 000s	2014 YR 000s
Accrued interest payable		1,654,868	2,542,617
Income taxes for the year	**24.1**	1,173,066	1,311,893
Accrued expenses		538,780	907,519
Salary tax payable		96,075	20,569
Unearned income		48,907	68,320
Income tax for previous year		21,622	20,383
Other credit balances		5,311,418	4,431,746
		8,844,736	**9,303,047**

24.1 Income taxes for the year

This item consists of the following as of December 31:

	Note	2015 YR 000s	2014 YR 000s
Income taxes for the year		1,311,893	1,597,825
Less: Paid during the year		(1,310,944)	(1,597,825)
Add: Provided during the year		1,172,117	1,311,893
Balance at end of the year	**46**	**1,173,066**	**1,311,893**

25. Other Provisions

This item consists of the following as of December 31:

2015	Balance at Jan. 1, 2015 YR 000s	Retranslation Differences of provision in foreign currencies YR 000s	Provided during the year YR 000s	Used during year YR 000s	Reversed provision YR 000s	Balance at Dec. 31, 2015 YR 000s
Provisions for contingent liabilities	622,120	(1,902)	-	-	(259,604)	360,614
Provisions for contingent claims	3,577,303	-	169,959	(2,139,708)	-	1,607,554
	4,199,423	**(1,902)**	**169,959**	**(2,139,708)**	**(259,604)**	**1,968,168**

2014	Balance at Jan. 1, 2014 YR 000s	Retranslation Differences of provision in foreign currencies YR 000s	Provided during the year YR 000s	Used during year YR 000s	Reversed provision YR 000s	Balance at Dec. 31, 2014 YR 000s
Provisions for contingent liabilities	385,000	(1,643)	238,763	-	-	622,120
Provisions for contingent claims	2,105,000	-	1,638,564	(166,261)	-	3,577,303
	2,490,000	**(1,643)**	**1,877,327**	**(166,261)**	**-**	**4,199,423**

Provision for contingent liabilities is calculated at 1% on the total contingent liabilities after deducting balances secured by deposits and guarantees issued by high credit rated banks.

26. Shareholders' Equity

26.1 Share capital

As at December 31, 2015, the share capital represents amounts of YR 17 billion (December 31, 2014: YR 14.9 billion) divided into 17 million shares of YR 1,000 par value according to the Board of Directors meeting held on August 4, 2015 regarding to increase the capital by amount of YR 2,100,000 thousand (bonus shares).

The break-up of the above amount is as follows:

		2015	
	Number of Shares	Percentage of holding %	Value of Shares YR 000s
Agricultural Promotion Fund	6,885,000	40.50	6,885,000
Government represented by the Ministry of Finance	5,749,400	33.82	5,749,400
Civil Aviation and Metrology Authority	4,250,000	25.00	4,250,000
General Confederation of Agriculture	115,600	0.68	115,600
	17,000,000	**100**	**17,000,000**

		2014	
	Number of Shares	Percentage of holding %	Value of Shares YR 000s
Agricultural Promotion Fund	6,034,500	40.50	6,034,500
Government represented by the Ministry of Finance	5,039,180	33.82	5,039,180
Civil Aviation and Metrology Authority	3,725,000	25.00	3,725,000
General Confederation of Agriculture	101,320	0.68	101,320
	14,900,000	**100**	**14,900,000**

26.2 Statutory Reserve

- In accordance with the provisions of the Banks Law No. (38) of 1998, 15% of the net profit for the year is transferred to statutory reserve until the balance of this reserve reaches twice the capital. The Group cannot use this reserve without the prior approval of the Central Bank of Yemen.
- Capital will be increased by the proceeds from the par value of the issued shares, and in case the shares were issued with a premium amount over the par value, the net increase will be included in statutory reserve, in accordance with Law No. (22) of 1997 regarding the commercial companies in the Republic of Yemen.
- Statutory reserve comprises an amount of YR 500 Million thousand in the form of premium in excess of par value during the year 2008.

27. Contingent Liabilities and Commitments, Net

	2015 Gross Commitments YR 000s	2015 Margin Held YR 000s	2015 Net Commitments YR 000s
Letters of credit	10,887,186	(2,361,999)	8,525,187
Letters of guarantee - customers	33,950,859	(6,414,602)	27,536,257
	44,838,045	**(8,776,601)**	**36,061,444**

	2014 Gross Commitments YR 000s	2014 Margin Held YR 000s	2014 Net Commitments YR 000s
Letters of credit	29,051,078	(3,748,984)	25,302,094
Letters of guarantee - customers	48,354,512	(10,116,370)	38,238,142
	77,405,590	**(13,865,354)**	**63,540,236**

28. Interest Income

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Interest on treasury bills	41,288,732	47,552,834
Interest on loans and advances to customers	5,353,136	5,330,604
Interest on due from banks	1,194,906	153,921
Interest on Government Bonds	718,089	716,089
	48,554,863	**53,753,448**

29. Interest Expense

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Interest on customers' deposits:		
Interest on time deposits	22,532,072	29,605,559
Interest on saving accounts and current accounts	1,328,573	1,651,531
	23,860,645	**31,257,090**
Interest on balances due to banks:		
Interest paid to banks	2,080,171	2,152,428
Interest paid to long term loans	54,021	10,446
	2,134,192	**2,162,874**
	25,994,837	**33,419,964**

30. Islamic Financing and Investement Activities Income

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Income from Islamic Sukuk	870,868	843,880
Income from financing Murabaha transactions	247,047	352,547
Income from Ijarah Muntahia Bittamleek	118,543	154,629
Income from Istisna'a transaction	64,694	45,764
Income from Mudaraba investment contracts	-	28,864
	1,301,152	**1,425,684**

31. Return of Unrestricted Investments and Saving Accounts Holders

The investment return allocated between shareholders and customers is based on the percentage of their contribution weighted by numbers. This allocation is proposed by the budget committee which calculates investments in local and foreign currencies and their related numbers and contribution and approved by the Board of Directors. The return ratios are as follows:

	2015		2014	
	Local Currency %	Foreign Currencies %	Local Currency %	Foreign Currencies %
Investment deposits	7.74%	3.05%	10.07%	5.12%
Saving accounts	4.40%	1.73%	5.00%	2.7%

32. Fee and Commission Income

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Commissions on letters of credit	762,788	368,605
Commissions on letters of guarantee	276,365	715,173
Commissions on transfer of funds	166,686	245,692
Other banking service charges	666,314	931,324
	1,872,153	**2,260,794**

33. Loss from Foreign Currency Transactions

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Gain (loss) from foreign currencies transactions	412,334	(137,108)
(Loss) Gain from retranslation of foreign currencies	(515,255)	108,748
	(102,921)	**(28,360)**

34. Income From Investment Securities

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Income from available for sale investments	3,055	11,566
Income from investments in associates	14,039	146,662
	17,094	**158,228**

35. Other Operating Income

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Provision reversed	354,512	-
Income from owned properties rental	2,408	3,876
Others	27,082	5,595
	384,002	**9,471**

36. Provisions

This item consists of the following for the year ended December 31:

	Note	2015 YR 000s	2014 YR 000s
Provision for loans and advances	**(10.1-a)**	2,994,156	1,334,819
Provision for financing activities	**(10.1-b)**	752,980	64,471
Provision for doubtful debts	**19**	2,253,883	1,357,612
Other provisions	**25**	169,959	1,877,327
		6,170,978	**4,634,229**

37. Staff Cost

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Salaries, allowances and incentives	8,600,233	8,055,031
Medical insurance	490,316	274,917
Social security	253,525	231,455
Others	4,314	19,631
	9,348,388	**8,581,034**

38. Other Expenses

This item consists of the following for the year ended December 31:

	2015 YR 000s	2014 YR 000s
Travelling and transportation	563,004	816,962
Operating leases	556,439	529,994
Advertisement and publicity	479,062	841,998
Zakat expenses	421,108	366,248
Maintenance and repairs	420,990	420,090
Security and guarding	376,271	335,156
Transportation and post office	353,397	488,151
Fees and licenses	253,183	197,117
Communications	227,634	401,944
Insurance expenses	167,427	365,416
Utilities	141,853	173,831
Stationery and printing supplies	121,555	138,880
Training expenses	65,244	134,341
Consultancy and professional fees	48,190	209,488
Other expenses	573,348	487,171
	4,768,705	**5,906,787**

39. Earnings Per Share

This item consists of the following as of December 31:

	2015	2014
Net profit for the year (YR thousand)	2,351,419	2,430,402
Weighted average number of shares (Thousand shares)	17,000	14,900
Earnings Per Share (YR)	**138**	**163**

The weighted average number of shares have been calculated as follows:

	Thousand Shares	Thousand Shares
Number of shares at the beginning of the year	14,900	11,900
Effect of bonus shares during the year	2,100	3,000
	17,000	**14,900**

40. Maturities of Assets and Liabilities

The following table shows the maturity of assets and liabilities as at December 31, 2015:

	2015				
	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Assets					
Cash on hand & reserve balances with CBY	29,999,735	-	-	-	29,999,735
Due from banks	15,373,794	71,979	2,500,000	-	17,945,773
Loans, advances and financing activities, net	29,163,898	3,445,778	3,001,235	2,527,940	38,138,851
Investments securities	190,369,021	37,292,742	21,818,200	744,371	250,224,334
Investment in Islamic Sukuk	-	-	-	14,667,000	14,667,000
Investments in associates	-	-	-	632,988	632,988
Debit balances and other assets	2,721,846	-	-	4,832,971	7,554,817
	267,628,294	**40,810,499**	**27,319,435**	**23,405,270**	**359,163,498**
Liabilities					
Due to banks and financial institutions	14,081,808	-	-	-	14,081,808
Customers' deposits	297,902,578	247,206	8,388	11,419,597	309,577,769
Long-term loans	-	-	-	2,756,188	2,756,188
Other liabilities and equity	5,129,326	-	-	27,618,407	32,747,733
	317,113,712	**247,206**	**8,388**	**41,794,192**	**359,163,498**
Net	**(49,485,418)**	**40,563,293**	**27,311,047**	**(18,388,922)**	**-**

The following table shows the maturity of assets and liabilities as at December 31, 2014:

	2014				
	Due within 3 months YR 000s	Due within 3 to 6 months YR 000s	Due within 6 months to 1 year YR 000s	Due over 1 year YR 000s	Total YR 000s
Assets					
Cash on hand & reserve balances with CBY	43,334,926	-	-	-	43,334,926
Due from banks	28,270,584	-	285,750	-	28,556,334
Loans, advances and financing activities, net	40,461,973	5,532,900	10,333,230	6,781,701	63,109,804
Investments securities	230,282,539	55,461,009	33,078,520	6,383,039	325,205,107
Investment in Islamic Sukuk	-	-	-	12,000,000	12,000,000
Investments in associates	-	-	-	618,949	618,949
Debit balances and other assets	-	-	-	8,833,892	8,833,892
	342,350,022	**60,993,909**	**43,697,500**	**34,617,581**	**481,659,012**
Liabilities					
Due to banks and financial institutions	21,374,311	-	-	-	21,374,311
Customers' deposits	417,440,965	2,014,978	1,953,096	3,000,000	424,409,039
Long-term loans	-	-	-	2,789,782	2,789,782
Other liabilities and equity	-	-	-	33,085,880	33,085,880
	438,815,276	**2,014,978**	**1,953,096**	**38,875,662**	**481,659,012**
Net	**(96,465,254)**	**58,978,931**	**41,744,404**	**(4,258,081)**	**-**

41. Average Interest Rates Applied During the Year

Average interest rates on assets and liabilities during the year compared with the last year are as follows:

	2015			
	Saudi Rial %	Yemeni Rial %	US Dollar %	Euro %
Assets				
Due from banks - time deposits	0.25	15.37	-	-
Treasury bills - held to maturity	-	16.04	-	-
Government bonds	-	16.10	-	-
Loans to customers	7.94	22	10	12
Agricultural loans	-	6	-	-
Overdrafts	-	25	12	12
Liabilities				
Customers - time deposits	-	15	3.77	-
Saving accounts	2	15	2	2
Banks - time deposits	-	15.37	4.5	-
Long term loans	-	2.6	2	-

	2014			
	Saudi Rial %	Yemeni Rial %	US Dollar %	Euro %
Assets				
Due from banks - time deposits	0.25	-	-	0.55
Treasury bills - held to maturity	-	15.98	-	-
Government bonds	-	16.05	-	-
Loans to customers	0.10	22	8.5	-
Agricultural loans	-	11	-	-
Overdrafts	-	25	12	12
Liabilities				
Customers - time deposits	-	15	4.08	-
Saving accounts	0.2	15	2	2
Banks - time deposits	-	15.1	4.49	-
Long term loans	-	-	2	-

42. Distribution of Assets, Liabilities, Contingent Liabilities and Commitments based on Economic Sectors

	2015							
	Manufacturing YR 000s	Agriculture YR 000s	Trade YR 000s	Building and Construction YR 000s	Finance YR 000s	Tourism YR 000s	Others YR 000s	Total YR 000s
Assets								
Cash on hand and reserve balances with Central Bank of Yemen	-	-	-	-	29,999,735	-	-	29,999,735
Due from banks	-	-	-	-	17,945,773	-	-	17,945,773
Loans, advances and financing activities (net)	443,709	1,373,519	23,512,615	585,760	277,905	44,476	11,900,867	38,138,851
Investments securities	-	-	-	744,371	245,019,097	-	4,460,866	250,224,334
Investments in Islamic Sukuk	-	-	-	-	14,667,000	-	-	14,667,000
Investments in associates	-	472,363	-	-	160,625	-	-	632,988
Liabilities								
Due to banks and financial institutions	-	-	-	-	14,081,808	-	-	14,081,808
Customers' deposits	15,615,902	7,882,396	125,237,962	17,220,188	6,797,159	705,814	136,118,348	309,577,769
Long-term loans	-	-	-	-	2,756,188	-	-	2,756,188
Contingent liabilities and commitments, net	4,050,089	711,594	15,931,630	8,673,968	5,000,604	765,770	927,789	36,061,444

	2014							
	Manufacturing YR 000s	Agriculture YR 000s	Trade YR 000s	Building and Construction YR 000s	Finance YR 000s	Tourism YR 000s	Others YR 000s	Total YR 000s
Assets								
Cash on hand and reserve balances with Central Bank of Yemen	-	-	-	-	43,334,926	-	-	43,334,926
Due from banks	-	-	-	-	28,556,334	-	-	28,556,334
Loans, advances and financing activities, net	6,982,085	2,276,780	39,940,903	2,800,692	64,676	260,321	10,784,347	63,109,804
Investments securities	-	-	-	1,902,202	318,842,039	-	4,460,866	325,205,107
Investments in Islamic Sukuk	-	-	-	-	12,000,000	-	-	12,000,000
Investments in associates	-	464,404	-	-	154,545	-	-	618,949
Liabilities								
Due to banks and financial institutions	-	-	-	-	21,374,311	-	-	21,374,311
Customers' deposits	57,815,561	10,506,357	198,194,366	22,719,834	8,678,031	1,449,925	125,044,965	424,409,039
Long-term loans	-	-	-	-	2,789,782	-	-	2,789,782
Contingent liabilities and commitments, net	9,500,020	4,290,556	32,114,444	13,507,734	322,405	781,499	3,023,578	63,540,236

43. Distribution of Assets, Liabilities, Contingent Liabilities and Commitments based on Geographical Locations

2015	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
Assets						
Cash on hand and reserve balances with CBY	29,999,735	-	-	-	-	29,999,735
Due from banks	14,815,096	21,605	247,910	2,847,630	13,532	17,945,773
Loans, advances and financing activities, net	38,138,851	-	-	-	-	38,138,851
Investments securities	250,224,334	-	-	-	-	250,224,334
Investments in Islamic Sukuk	14,667,000	-	-	-	-	14,667,000
Investments in associates	613,018	-	-	-	19,970	632,988
Liabilities						
Due to banks and financial institutions	9,414,114	-	349,946	247,029	4,070,719	14,081,808
Customers' deposits	309,577,769	-	-	-	-	309,577,769
Long-term loans	2,756,188	-	-	-	-	2,756,188
Contingent liabilities and commitments, net	28,412,343	-	320,270	7,328,831	-	36,061,444

2014	Republic of Yemen YR 000s	America YR 000s	Europe YR 000s	Asia YR 000s	Africa YR 000s	Total YR 000s
Assets						
Cash on hand and reserve balances with CBY	43,334,926	-	-	-	-	43,334,926
Due from banks	10,072,000	7,744,167	3,726,219	3,084,212	3,929,736	28,556,334
Loans, advances and financing activities, net	63,109,804	-	-	-	-	63,109,804
Investments securities	325,205,107	-	-	-	-	325,205,107
Investments in Islamic Sukuk	12,000,000	-	-	-	-	12,000,000
Investments in associates	598,979	-	-	-	19,970	618,949
Liabilities						
Due to banks and financial institutions	10,460,787	-	-	130,333	10,783,191	21,374,311
Customers' deposits	424,409,039	-	-	-	-	424,409,039
Long-term loans	103,657	-	-	-	2,686,125	2,789,782
Contingent liabilities and commitments, net	38,834,966	320,490	3,106,408	21,066,340	212,032	63,540,236

44. Significant Foreign Currencies' Positions

To comply with CBY circular No. 6 of 1998, the Group establishes limits for positions in individual foreign currencies as well as an aggregate limit for all currencies. These limits are 15% and 25% of total capital and reserves respectively. The following schedule shows the Group's significant foreign currency positions at the financial statements date:

	2015		2014	
	Surplus (deficit) YR 000s	% of capital & reserves	Surplus (deficit) YR 000s	% of capital & reserves
US Dollar	(64,600,795)	%(295)	(64,756,665)	%(370)
Saudi Rial	(3,302,432)	%(15)	(1,447,753)	%(8)
Euro	(2,048,982)	%(9)	44,357	-
Sterling Pound	(143,118)	%(1)	(81,308)	-
Others	(616,344)	%(3)	195,613	%1
Net (deficit)	**(70,711,671)**	**%(323)**	**(66,045,756)**	**%(377)**

The US Dollar exchange rate as at December 31, 2015 was YR 214.89 (as at December 31, 2014: US Dollar exchange rate was YR 214.89).

45. Transactions with Related Parties

Parties are considered to be related if the party has the ability to control or exercise significant influence over the Group's operating and financial decisions.

The Group deals with related parties on the same basis applied to third parties in accordance with the Banks Law as implemented by CBY circular No. 4 of 1999, which limits credit transactions with related parties and requires that the Group applies the same terms and conditions that are applied with non-related parties.

The nature of the Group's activities requires dealing with certain shareholders, members of the Board of Directors and companies owned by them. These transactions consist of obtaining loans and advances, issuing letters of credit and letters of guarantee and other various transactions conducted as part of the Group's normal activities.

	2015 YR 000s	2014 YR 000s
Loans, advances and Islamic financing activities (net)	79,015	358,538
Current accounts and time deposits	1,176,403	766,803
Long term loans	-	-
Commissions and interest received	225	2,661
Interest paid	10,293	4,669
Salaries and benefits	233,814	240,801

46. Tax Status

- Up to December 31, 2009, the Bank is not subject to commercial and industrial profit tax and income tax, in accordance with Article (21) of Law no. (39) of 1982 concerning the establishment of the Bank, Income Tax Law No. (31) of 1991 and its subsequent amendments by Republican Decree No. (12) of 1999 and the provisions of Article No. (85) of Law No. (38) of 1998 concerning banks.
- Corporate and salary tax have been cleared up to the year 2010.
- The Group has submitted the tax declaration for the year 2011 within the deadline and paid the tax amount due. The Group was notified of differences in the corporate tax amounting to YR 375,613 thousand (after deducting the taxes paid) and YR 247,649 thousand for salary tax, according to the form No (3). The Group present an appeal on this assessment to the Tax Appeal Committee (TAC), which has issued its decision to amend the difference of corporate tax to YR 64,880 thousand and the difference of salary tax to YR 74,829 thousand. However the Tax Authority has objected to the decision issued by the TAC and accordingly resorted to the Primary Tax Court. During the consideration of the case in front of the Primary Tax Court, both parties agreed to solve the issue and a conciliation award was signed on November 16, 2015, in which the due commercial and industrial profit tax has been determined with an amount of 389,371 thousand, differences in commercial and industrial profit tax amounting of 80,718 thousand, salary tax amounting of 540,518 thousand and differences in salary tax amounting to 74,829 thousand and these amounts have been paid during the year.
- The Group has submitted the tax declaration for the year 2012 and paid the amount due within the legal deadline. The Group was notified of differences in the commercial and industrial profit tax amounting to YR 1,535,315 thousand (after deducting the taxes paid) and YR 262,778 thousand for salary tax, according to the form No (3). The Group present an appeal on this assessment to the Major Taxpayers Committee but no decision has been taken by the committee up to date. The Group does not expect the presence of any potential liabilities against this additional assessment.
- The Group has submitted the tax declaration for the year 2013 and paid the amount due within the legal deadline. The Tax Authority has not performed any review for the year 2013 nor has the Group received any additional tax notifications till now.
- The Group has submitted the tax declaration for the year 2014 and paid the amount due within the legal deadline. The Tax Authority has not performed any review for the year 2013 nor has the Group received any additional tax notifications till now.
- Salary tax has been finalized up to the year 2008, 2010 and 2011.
- The Group has paid the salary tax for the years 2009, 2012, 2013 and 2014 based on the monthly declarations. The Group was notified of an additional tax assessment for the year 2012 with an amount of YR 262,778 thousand and the Group present an appeal on this assessment to the Major Taxpayers Committee but no decision has been taken by the committee up to date. Regarding the Salary tax for the year 2013 and 2014, the Tax Authority has not performed any review nor has the Group received any additional tax notifications till now.

47. Zakat

- The Group submits its Zakat declaration annually and remits the amount due based on the declaration.
- The Group has paid the Zakat up to the end of 2013 according to the Zakat declaration. No additional assessment notifications has been issued by the Zakat Department.
- The Group has paid the Zakat up to the end of 2014 according to the Zakat declaration. No additional assessment notifications has been issued by the Zakat Department.

48. Contingent Liabilities

The Group has filed a number of legal cases before the Public Fund Court and the Commercial Court against third parties, and management has provided for the necessary provisions for these cases. Also, there are legal cases filed against the Group at the respective courts, and the Group's management believes that there are no obligations on those cases.

49. Operating Lease

The total amount of future minimum lease payment under non-cancellable operating lease is as follows:

	2015 YR 000s	2014 YR 000s
Not later than one year	125,757	38,388
Later than one year and not later than five years	22,544	63,047
Later than five years	2,915	1,000
	151,216	**102,435**

50. Comparative Figures

Some comparative figures were reclassified to conform with this financial statements classification for more appropriate presentation. The reclassifications do not impact the previously reported net profit or equity.

51. Subsequent Events

Due to the political crisis, economic situation and security events in the Republic of Yemen during the year 2015 and its continuation in the year 2016, it is difficult for management to predict the effects of these events until the issuance date of the consolidated financial statements for the 2015 except the mentioned in the following paragraph. The management confirms that it will study the bank effects of this crisis in the short term and make the necessary precautions to ensure continuity.

On April 3, 2016, the Central Bank of Yemen has amended the Foreign Exchange rate of the Yemeni Riyal; accordingly, The Bank's Management has studied the impact of this amendment on the balances in foreign currencies as at April 30, 2016, the following are the realized impacts (profit or loss) by each type of currency:

	Exchange rate			Impact profit (loss)
	December 31, 2015	April 30, 2016	Change	YR 000s
Emirates Dirham	58.52	68.14	9.62	(87,998.90)
Chinese Yuan Renminbi	33.10	38.59	5.49	698.00
Euro	234.91	283.69	48.78	115,920.24
Pound Sterling	318.61	364.12	45.51	517.27
Japanese Yen	1.79	2.30	0.51	19.15
Saudi Rial	57.15	66.73	9.58	(445,836.96)
US Dollar	214.89	250.25	35.36	(9,811,916.85)
Total				**(10,228,598.05)**

However, the Bank's Management assumes that will take the appropriate actions to minimize any negative impact of these changes.

52. The Separate Financial Statements for CAC Bank - Parent company

1 Statement of Financial Position

	Dec. 31, 2015 YR 000s	Dec. 31, 2014 YR 000s
Assets		
Cash on hand and reserve balances with Central Bank of Yemen	**29,999,735**	43,334,926
Due from banks	**17,945,773**	28,556,335
Loans, advances and financing activities, net	**38,138,851**	63,109,804
Investments securities	**250,224,334**	325,205,107
Investments in Islamic Sukuk	**14,667,000**	12,000,000
Investments in associates	**632,988**	618,949
Investments in subsidiaries	**10,000**	10,000
Debit balances and other assets, net	**4,386,103**	5,802,076
Property and equipment, net	**3,178,327**	3,035,888
Total assets	**359,183,111**	**481,673,085**
Liabilities and equity		
Liabilities		
Due to banks and financial institutions	**14,081,808**	21,374,311
Customers' deposits	**309,661,436**	424,530,458
Long-term loans	**2,756,188**	2,789,782
Credit balances and other liabilities	**7,457,415**	9,210,088
Other provisions	**3,085,632**	4,194,423
Total Liabilities	**337,042,479**	**462,099,062**
Equity		
Share capital	**17,000,000**	14,900,000
Statutory reserve	**2,887,060**	2,532,615
General reserve	**47,151**	77,080
Retained earnings	**2,206,421**	2,064,328
Total Equity	**22,140,632**	**19,574,023**
Total liabilities and equity	**359,183,111**	**481,673,085**
Contingent liabilities and commitments, net	**36,061,444**	**63,540,236**

Separate Financial Statements for CAC Bank - Parent company (Continued)

2 Statement of Profit or Loss and Other Comprehensive Income for the years ended December 31,

	2015 YR 000s	2014 YR 000s
Interests income	**48,561,883**	53,754,636
Less: interests expense	**(26,054,318)**	(33,440,065)
Net interests income	**22,507,565**	**20,314,571**
Islamic financing and investments activities income	**1,301,152**	1,425,684
Less: Return of unrestricted investment and saving accounts holders	**(317,125)**	(555,026)
Net income from Islamic financing and investment Activities	**984,027**	**870,658**
Net income from interests and Islamic financing and investments activities	**23,491,592**	**21,185,229**
Fees and commission income	**1,919,008**	2,260,794
Loss from foreign currency transactions	**(102,921)**	(28,360)
Income from investment in securities	**17,094**	158,228
Other operating income	**372,949**	3,877
Net operating income	**25,697,722**	**23,579,768**
Less: Impairment loss on investments securities	**(1,177,802)**	-
Less: Provisions	**(6,151,837)**	(4,632,214)
Less: Staff cost	**(8,266,152)**	(7,840,574)
Less: Depreciation of property and equipment	**(716,835)**	(732,310)
Less: Other expenses	**(5,653,845)**	(6,635,105)
Net profit for the year before income tax	**3,731,251**	**3,739,565**
Less: Income tax for the year	**(1,172,117)**	(1,310,944)
Net profit for the year after tax	**2,559,134**	**2,428,621**
Other comprehensive income	**-**	**-**
Total comprehensive income for the year	**2,559,134**	**2,428,621**
Earnings per share	**151 YR**	**163 YR**